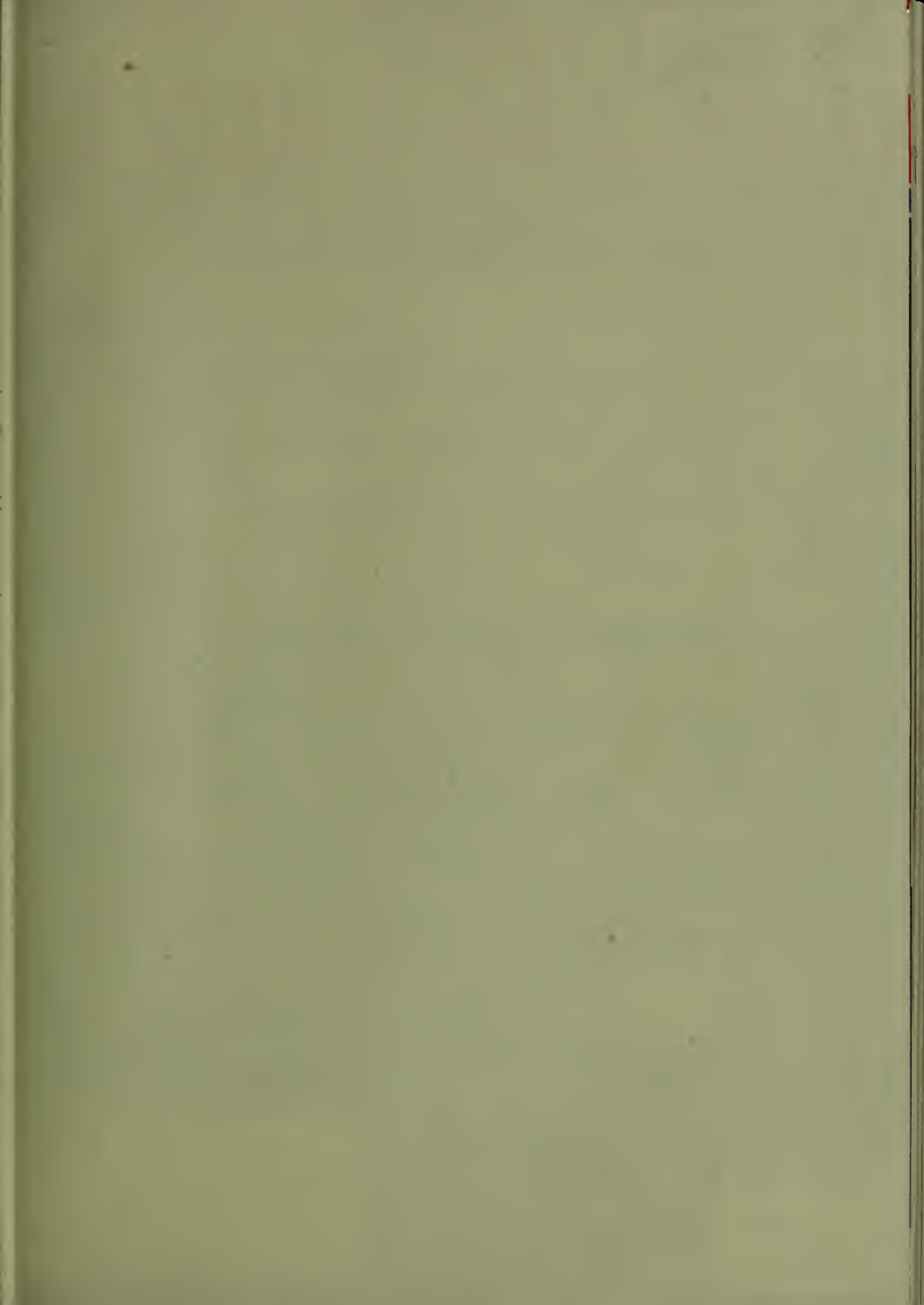


**For Reference
Do Not Take
From the Library**

Every person who maliciously cuts, defaces, breaks or injures any book, map, chart, picture, engraving, statue, coin, model, apparatus, or other work of literature, art, mechanics or object of curiosity, deposited in any public library, gallery, museum or collection is guilty of a misdemeanor.

**Penal Code of California
1915, Section 623**





BusinessWeek

002

A PUBLICATION OF THE MCGRAW-HILL COMPANIES

WORLD COM

INSIDE
OF A
DOWN

WORKERS
PAIN OF
OTHER TIMES

ALTH
RE
CHANGES
AD IN YOUR
EFITS

ENCH
OCK
T THE
TION
NS FOR
OPE

THE CRISIS IN CORPORATE GOVERNANCE

SPECIAL REPORT

Excessive Pay. Weak Leadership.
Corrupt Analysts. Complacent Boards.
Questionable Accounting.

*How To Fix
The System*

PAGE 68



#BXNDDEDD *****
#LBRP000097 1#302496 BX001016
|||
060123
JAN 27 03 1434
BURLINGAME PUBLIC LIB
400 PRIMROSE RD
BURLINGAME CA 94010-4010

BURLINGAME
APR 30 2002
LIBRARY



The fastest road
to Web services.

On the road to Web services,
**the only way to
keep your freedom
is by sticking
to the open road.**



Sun™ ONE

Open Net Environment

Reports from the road: MLB® Advanced Media.

Sun empowers Major League Baseball® Advanced Media to deliver dynamic Web site content with the Sun ONE Application Server to over 40 million fans, while the Sun ONE Directory Server keeps visitor registration information safe.

Sun's partner for the ride: EDS.

Sun provides on-site support to EDS consulting teams, so they can provide faster, more direct service to their customers implementing enterprise-level portal, wireless and Web services projects.

REGISTER TODAY

for our exclusive Web seminar on the
importance of open standards in Web services.

www.sun.com/stayopen

Make the net work. With Sun™ ONE,
the wide-open comprehensive software
platform for Web services.

Once you've started down the road to Web
services, you need to move fast, stay flexible
and take advantage of business opportunities
wherever you find them. That's where Sun™ ONE
comes in. Sun ONE is a complete software archi-
tecture that enables you to create, develop
and deploy the kind of innovative "Services
on Demand" that build customer loyalty and

quickly improve your business. Sun ONE is
backed by a power trio of award-winning
products (Sun ONE infrastructure software, the
Solaris™ Operating Environment and Sun ONE
Developer Tools for Java™) and is built on open
Web standards such as XML, LDAP and the
Java universal development platform. And
since it is designed from the ground up to
integrate with your existing IT environment
and the products you are already using, control
remains firmly in your hands.



**STRETCH YOUR INVESTOR MIND AND IT WILL
NEVER GO BACK TO ITS ORIGINAL DIMENSIONS.**

Investing Online, Made Easy, NYSE, PC

| **MUTUAL FUNDS**

| **RETIREMENT SERVICES**

| **EXPERT GUIDANCE**

| **TRAD**



anywhere you look, everything you learn helps you become a more successful investor. So you want those who manage your money to have that same ever-expanding passion. People who use inspiration, smarts, and guts to find what others might miss. You want Fidelity. So call, click, or visit. Because you're not just invested. You're **personally invested**.SM

800.FIDELITY

| FIDELITY.COM

| 85 INVESTOR CENTERS

Fidelity



Investments[®]

SPECIAL REPORT

THE CRISIS IN CORPORATE GOVERNANCE

The public won't trust business again until real reforms are put in place—and every aspect of the corporation is ripe for overhaul *page 68*



BusinessWeek

MAY 6, 2002

Special Report

68 CRISIS IN CORPORATE GOVERNANCE

The public is fed up with accounting games, corrupt analysts, and toothless boards. Faith in U.S. business hasn't been this shaken since the trustbuster era—during Theodore Roosevelt's Presidency. Ending the crisis will take more than a single initiative. The system needs far-reaching reforms. Here are our proposals for overhauling management compensation, corporate oversight, stock analysis, accounting, and an out-of-control corporate culture

80 THE CLEANUP GOES GLOBAL

But not all reforms will follow the U.S. model

News: Analysis & Commentary

30 BIG PHARMA'S WHEEZING SPELL

Slack R&D and patent expirations will leave drug companies in a nasty downturn that they're ill-equipped to handle

32 NOT-SO-SECRET DRUG SECRETS

Are investors trading on privileged information?

34 FIRST-QUARTER PROFITS

Sales plummeted a stomach-churning 6% for the companies in our flash-profits survey. And while earnings grew—feebly—the numbers don't tell the whole story

36 TRIUMPHS BEYOND TOASTERS

Pottery Barn Kids has been a hit for specialty retailer Williams-Sonoma, but a new discount venture poses risks

38 THE EMPEROR STRIKES BACK

George Lucas is doing all he can to maximize the take on the next *Star Wars* movie

40 BOTOX: NOW IT'S A GUY THING

Male executives and lawyers are already the fastest-growing market, and now that the FDA has approved it for wrinkle removal, expect the marketing blitz to begin

42 IN BUSINESS THIS WEEK

International Business

48 EUROPE: AFTER THE SHOCK

The rise of Le Pen & Co. means badly needed economic reform could become a casualty as mainstream politicians try to steal the thunder of the New Right

52 COMMENTARY: FRANCE

Why the electoral triumph of Jean-Marie Le Pen—and the xenophobic Right—could be a good thing

55 INTERNATIONAL OUTLOOK

Malaysia's Mahathir: A surprise ally in the Bush Administration's war on terror

Economic Analysis

24 ECONOMIC VIEWPOINT: BALANCE

A U.N. report blames poverty and income inequality on globalization, but it gets the facts wrong

26 ECONOMIC TRENDS

A U-turn for the money supply is an indicator; revised data show 2001 was indeed a recession. Germany's dangerous credit

27 BUSINESS OUTLOOK

U.S.: The nation's growing account deficit could set the economy up for a fall

Government

45 WASHINGTON OUTLOOK

President Bush's steel tariff look so ironclad as U.S. puts line up for exemptions and threatens retaliation

INSIDE DOPE
How investors get
the jump on hot
drugs page 32



REVOLUTION
Big changes ahead in
health care page 99



VINYL SIDING
Sears is dealing out
credit cards as quick
as it can page 82

HARD RIGHT
The political
landscape in
Europe shifts
—and reform
hangs in the
balance
page 48



A 1,000-YEAR PLAN
The Energy Dept.'s effort to
clean up nuke waste page 94

**MORE THAN
A SALES DIP**
Our quarterly
flash profits
report doesn't
paint a pretty
picture page 34



THE GOP'S CENTRAL PLANNERS
Choosing candidates across the
nation, Bush politicians are irking
Republican organizations

Ice

SLIPPERY SLOPE AT SEARS
The chain is increasing its
dependence on credit-card income
while its retail sales slip. Critics
worry that the strategy will lead to
write-offs down the road

WALL BANKS ARE LIVING LARGE
A few years ago, they seemed
headed for extinction. But superior
service and improved management
are paying off—even in big cities

Information Technology

WILDESTROM: TECHNOLOGY & YOU
As Wi-Fi cafés proliferate,
travelers need some tips

WORLD IS WORLDCOM
The telecom's revenues are sliding,
debt bomb is ticking—and the
cultures are circling. Can Bernie
Ebbers stave off bankruptcy?

WHAT'S BERNIE EBBERS WORTH?
WorldCom's founder owes the
company \$341 million

Sports Business

91 DAVID STERN TAKES HIS SHOTS
A frank and feisty talk with the
NBA commissioner about the future
of sports on TV and much more

Science & Technology

94 THE NUCLEAR WASTE NIGHTMARE
As the Energy Dept. gets cleanup
plans in gear, it may be tiny
companies that have answers to
some of the biggest problems

97 DEVELOPMENTS TO WATCH
Micro-particles and new drugs;
toward tastier tomatoes; when
heartache can lead to heart attacks

BusinessWeek Investor

100 PICKING CARE YOU CAN AFFORD
Patients are about to get more
choice over their health care, but
they'll be faced with higher costs in
exchange for more options

102 GIVING POWER TO THE PATIENT
Consumer-driven health-care plans
may help lower costs

103 YOU'LL PAY MORE FOR DRUGS

As companies and insurers shift a
greater share of prescription
expenses to patients, expect \$20 or
even \$50 copayments

104 THE WELL-INFORMED PATIENT

Web research is crucial to getting
the best care for the least cost. But
which health sites are reliable?

108 THE BARKER PORTFOLIO

After losing \$6.2 billion last year
but keeping its sterling assets,
there's something new at Liberty
Media: Value

111 MARCIAL: INSIDE WALL STREET

Features

8 UP FRONT
12 READERS REPORT
14 CORRECTIONS & CLARIFICATIONS
15 BOOKS
Caro: *The Years of Lyndon*
Johnson: *Master of the Senate*
18 BUSINESSWEEK BEST-SELLER LIST
112 FIGURES OF THE WEEK
114 INDEX TO COMPANIES
116 EDITORIALS

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

Updated every business day at www.businessweek.com

50

Visit the BusinessWeek 50 area of our site for news, investing tools, and more at www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ OIL PRESSURES:

S&P's Tina Vital on the effects of the latest price moves. Plus: Her top stock picks



■ FEWER VOICES:

Too much media consolidation threatens diversity of opinion, says BW's Bruce Nussbaum



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your handheld! Get news from Daily Briefing, S&P data, and more.

Visit AvantGo.com or OmniSky.com to sign up



Find quick links to everything on this page at the May 6, 2002, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/02_18/online.htm

Shorter Coattails?

With President Bush's popularity numbers starting to slip, Election 2002 is becoming a real nail-biter for GOP hopefuls. Here's a look at this year's voting dynamics



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Analysis: So many new companies want to use limited airwaves, the FCC is considering overlapping allocations



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Analysis: You'd be hard-pressed to find a more volatile sector than lenders that cater to high-risk borrowers. Got strong nerves?

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Flash Product Review: Sun Microsystems' new small-business server serves a neglected market

SmallB

TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Commentary: It's High Tech vs. Hollywood on Capitol Hill, as the two opposing sides duke it out over how to prevent digital piracy

ebiz

B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Sound Money: The U.S. can no longer tolerate public schools that betray black and Hispanic students

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Online Asia: The suicide rate in several Asian regions is rising. What is it that antidepressant drugs are so rarely prescribed or used?

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Ask Careers: Asking for more to do can help you get ahead. However, an all-work, no-play attitude can have drawbacks, too

BusinessWeek tv

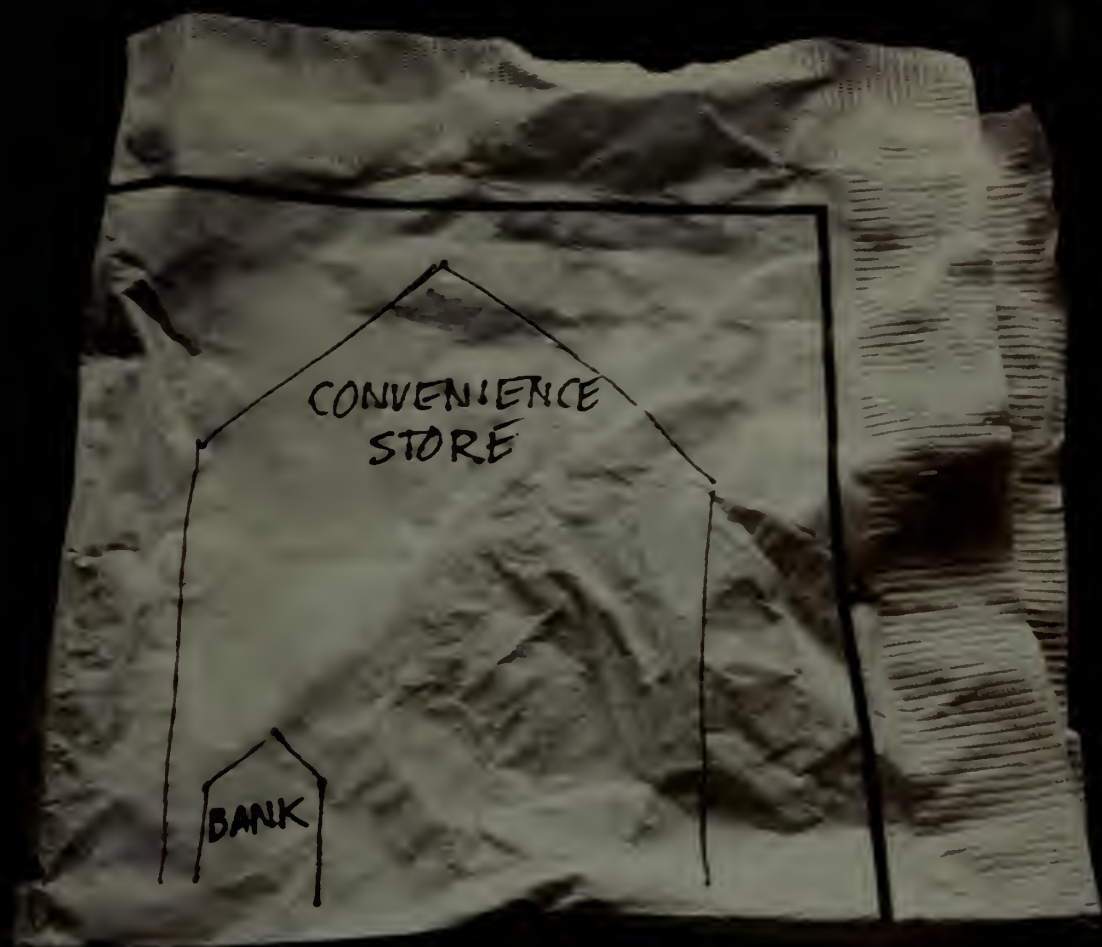
FOR PROGRAM DATES AND TIMES IN YOUR AREA GO TO WWW.BUSINESSWEEKTV.COM

TUNE IN THIS WEEKEND FOR:

Single vs. married Who's better off financially?

BW's Flash Profits Survey: How companies are doing

Where did my mutual fund go?



WHATEVER YOUR DREAM.

JOHNNIE WALKER

Up Front

EDITED BY
SHERIDAN
PRASSO



CAPITAL IDEAS

VCs: SPREADING WEALTH—AND RISK

VENTURE CAPITALISTS USED to hog all the risks—and rewards—for their own firms when funding startups. They didn't worry about needing co-investors for later rounds, since companies were going public so early. The success of dot-coms with single backers—Netscape, eBay, and Amazon.com—only spurred more single-backer ventures.

Then came the tech wreck. These days, venture capitalists are doing a lot more sharing. "There has absolutely been a change," says Jim Breyer of Silicon Valley's Accel Partners. Accel now seeks co-investors on almost all early-stage deals, compared with fewer than half in 1999. Researcher VentureOne says 27% of financings had one investor last year, compared with 37% in 1995.

Why the sudden generosity? When companies founder, it's no fun being the only financier on board. And companies can benefit from the experience of other backers. "You just want more brains around the table," says Brad Jones of Redpoint Ventures. His firm shares 80% of its early-stage deals, somewhat more than during the boom years. Maybe everything you need to know about business you really did learn in kindergarten. *Kimberly Weisul*

PROPERTY RIGHTS

A BEEF WITH GATEWAY'S COW

IN ONE CORNER, THE recording industry. In the other, computers. Gateway came out punching in April, running a TV campaign that featured the company's black-and-white spokesperson and founder Ted Waitt promoting consumers' ability to copy, mix, and transfer digital music. The Recording Industry Association of America condemned the ad, which ended a two-week run on Apr. 19. "This ad is more about them selling CD burners than acting like they care about piracy," charges RIAA President Hilary Rosen. Counters Waitt: "Gateway isn't endorsing piracy, we're advocating consumers' rights."

At issue is how to protect digital works when they're

TALK SHOW "The only way for there to be lasting peace for there to be two states living side by side at peace with each other."

—President Bush, on the Israeli-Palestinian conflict



DUET: Copy-right challenge

so easy to copy and distribute for free on the Net. Spooked by Napster and its imitators, Hollywood is backing laws and technology that give it more control over how consumers use copyrighted works, in some cases preventing the playing of new CDs on computers. Gateway and a growing group of tech companies view that approach as a threat to consumer rights—and to the ap-

peal of new computer deals. In the irreverent 60-second ad, Waitt pops a made CD into the stereo, and he and his band chum sing along to a remix of Gordon Lightfoot's *Sundown*. A message appears: "Gateway supports rights to enjoy digital music legally" and invites people to download the song from Gateway's site. Gateway, in fact, negotiates the download rights. Like Napster, it's legit. *Heather*



ON CAMPUS

UH, ABOUT GOOD OLD ANDERSEN HALL...

WHAT'S IN A NAME? WHEN IT'S Arthur Andersen, chagrin. At a number of universities around the country—Northwestern, the University of California-Berkeley, and the University of Wisconsin-Madison, to name a few—auditoriums, halls, and centers bear the name of the beleaguered accounting giant. None plan to change the name, they

say. At least not right away.

But given current events, what goes on inside them can seem downright incongruous. Arthur Andersen Auditorium, a classroom at Berkeley's Haas School of Business, was the site of an Apr. 6 competition for entrepreneurial students proposing socially responsible businesses. "We joked about having to change the name, but it just isn't funny anymore, now that Andersen might actually be no

more," says Dennis C., a second-year MBA student.

At Madison, administrators fear the name could scare students from studying accounting at the Arthur Andersen Center for Financial Reporting & Control, funded mainly by retired Andersen partners' donations. School spokesman: "The Andersen name might very well become counterproductive." *Julia Cosgrove*

THE LIST WITH DIPLOMA IN HAND

Job openings for college grads are down 20% from last year. As a result, many are accepting lower entry-level salaries. Here's the breakdown:

DEGREE	2002 OFFER	CHANGE FROM 2001
COMPUTER SCIENCE	\$50,352	-3.6%
ENGINEERING	\$48,251	-2.0%
ACCOUNTING	\$40,293	+3.2%
BUSINESS ADMINISTRATION	\$35,209	-7.1%
LIBERAL ARTS	\$28,667	-5.6%

Data: National Association of Colleges & Employers

C E R T I F I E D P R E O W N E D L E X U S



OTHER CARS ARE PRE-OWNED. BUT THAT'S WHERE THE SIMILARITIES END.

Truth be told, Certified Pre-Owned Lexus Vehicles have more in common with new cars. Like the Lexus of warranties that backs them for three years from your date of purchase or 100,000 total vehicle miles.* A complimentary loaner car.[†] Extremely competitive financing rates and lease terms.[‡] And, of course, there is one more important thing that separates a Certified Pre-Owned Lexus from other vehicles: They are only available at your local Lexus dealer. But, you shouldn't simply take our word for it. Come in for a test drive and see for yourself.

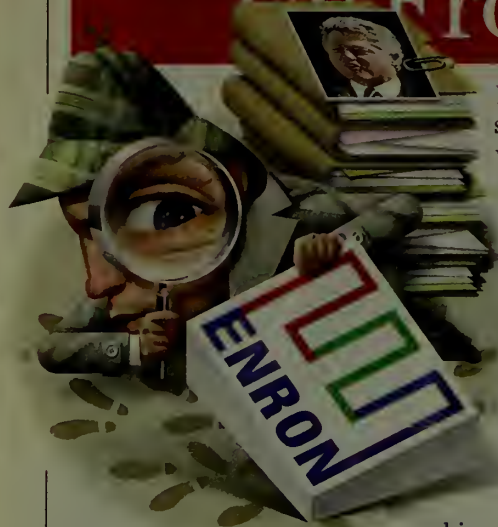


ONLY AT YOUR LEXUS DEALER

lexus.com

*See your Lexus Certified Pre-Owned dealer for warranty details. Service loaner cars available on qualified warrantable repairs only.

Only Tier 1 and 2 customers will qualify for the lowest finance rates. © 2001 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts, secure children in rear seat, obey all speed laws and drive responsibly.



THE FEDS

AFTER WHITewater, ENRON IS EASY

WHAT DO MEMBERS OF WHAT Hillary Clinton once called the "vast right-wing conspiracy" do when there's a Republican President? A good number of them find jobs in the Bush Justice Dept. Many of the folks now focused on the likes of Enron and Arthur Andersen not long ago were probing a smaller—

but equally controversial—business venture. It was called Whitewater.

Three of Justice's 10 assistant attorneys general were Whitewater investigators. Criminal Division chief Mike Chertoff, the point man on both Enron and Andersen, headed the Senate's Whitewater probe.

Policy chief Viet Dinh worked with him. And spokeswoman Barbara Comstock worked on the House's investigation.

Also claiming a Whitewater past is Solicitor General Ted Olson. He represented the Clintons' chief accuser, David Hale, and often spoke out in support of Independent Counsel Kenneth Starr. Then there's U.S. Attorney for Manhattan James Comey, who worked on the Senate Whitewater investigation.

Maybe they'll have better success prosecuting Enron than they did investigating Whitewater. *Dan Carney*

NAME GAMES

TEQUILA WITH A TWIST

WILL THE REAL CUERVOS please stand up? José Antonio de Cuervo started making tequila in the Mexican town of Tequila more than 200 years ago. But now, a father and son—who claim Jose Cuervo tequila is no longer made by direct descendants of José—are launching a new tequila. It's called Ana R. Vda. (widow) de Cuervo.

Guadalajara businessman José Cuervo Lazcano, 52, says his new, high-quality tequila made from a family recipe honors his grandmother, the widow of the son of a great-great-grandson of

José. "It's the heritage of my family," he says. "It's my name." Cuervo Lazcano says the direct link in the family that now produces Jose Cuervo was broken when Ana died in 1921 and gave the Cuervo franchise to her nieces. Jose Cuervo International CEO Juan Domingo Beckmann says his family is part of the extended Cuervo clan by marriage, and that the company will challenge the use of its Cuervo trademark: "They're trying to steal a brand we have built."

Branding experts say Jose Cuervo, the world's best-selling tequila, is already established and that it's too late for others to claim they're the real Cuervos. That, says Julie Cottineau of Interbrand consultants, may "fall on deaf ears." *Aixa M. Pascual and Geri Smith*



RIVALS: *The Cuervo challenge*

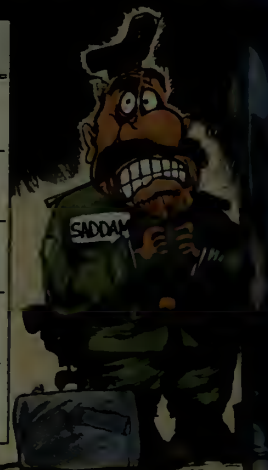
Polls, surveys, and oth-

DRAWN & QUARTERED

IRAQI COLOR WARNING SYSTEM

Condition GREEN	WITH NO INSPECTORS; WEAPONS-A-US IS OPEN FOR BUSINESS!...
Condition BLUE	GERALDO STOPS BY FOR AN INTERVIEW...
Condition YELLOW	THE INS APPROVES AND SENDS YOU A STUDENT VISA...
Condition ORANGE	PRESIDENT BUSH ENROLLS YOU IN THE PRETZEL-OF-THE-MONTH CLUB...
Condition RED	U.S. TIRED OF SEARCHING FOR BIN LADEN...HELLO, SADDAM!

JOHNNY CARROLL



CLASS OF '02

GET A JOB, SAVE THE PLANET

IT WOULD HARDLY SEEM A time for idealism in searching for a job. Anxious college seniors are practically begging for work. Yet grads at elite universities such as Harvard and Cornell and state schools such as Virginia are taking the Graduation Pledge, promising to enter the workforce bearing in mind social and environmental responsibility.

More than 100 colleges and universities now participate, up from only a handful six years ago when the pledge started spreading nationwide. Student organizers and administrators have enlisted at least 10,000 students so far. Signed or recited

around graduation, the pledge elicits a promise from students to "take into account the social and environmental consequences of any job" they consider. They also promise to "try to improve aspects of any organizations" where they work. Pledgers at Manhattan College in Indiana, for example, wear green ribbons at graduation; about 10 percent of grads do so.

"It's easy for students to focus just on getting a job and making a living," says Harvard pledge-taker Stephen Smith, who plans to become a teacher. "The pledge gives student a chance to reflect on their choices." *Julia Cosgrove*

THE BIG PICTURE

WORD OF MOUTH

Below, the share of people that used a referral to make one of the following purchases in the past year.

RESTAURANTS	69%
COMPUTER HARDWARE/SOFTWARE	36%
CONSUMER ELECTRONICS	24%
TRAVEL	22%
AUTOMOTIVE	18%
FINANCIAL SERVICES	9%

ONLINE SURVEY OF 1,000 ADULTS, FEBRUARY, 2002
Data: Goodmind LLC



er items for this section should be sent to upfront@businessweek.com



How do you get daily updates
on your business health?

Help employees set
well-defined objectives?

And respond quickly to
changing market conditions?

SAS® is all you need to know.

Only SAS provides you with a total enterprise view for aligning HR, finance and other business units to meet strategic goals. So you can keep stakeholders happy, employees productive and competitors on the defensive. To find out how leading companies are reaping the rewards of SAS enterprise intelligence software, call toll free 1 866 270 5722 or visit www.sas.com/enterprise

The Power to Know.



EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS:
 Joyce Barnathan, Frank J. Comes, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Arnst, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Peter Elstrom, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Margaret Popper, William Wolman, Seymour Zucker (Sr. contributing eds.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); Robin Ajello, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Dan Beucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khermouch, Julia Lichtblau, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: David Rocks. E-Business: Timothy J. Mullane. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Spencer E. Ante, Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. News: John Protos. People: Susan Berfield. Personal Finance: Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports business)
STAFF EDITORS: Lewis Braham, Jeanette Brown, Jennifer Merritt, Kimberly Weisul
COMPTON EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Tim Belknap, Aleta Davies, Jack Robbins, Doug Royalty (Sr.); Giles Blunt, Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Malka Percal, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Nigel Cruickshank, Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Daunis Allen, Joe Calviello, Roger Kenny, Stephen Kenny, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bonizer (Asst.), Nita L. Jansen, Rich Michiel, Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper (Assoc.); Lucy Conticello, Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.). Karen Butcher, Francisco Cardoza, Thomas R. Dowd, Stephen R. Lebron, Kim Maenak, Jose L. Martin, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Y. Steve Ben-Ari, Steven McCarthy, Anoop Srivastava, Craig Sturgis, Mauro Vaisman
ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorff, John Johnsrud; Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Tory Cracolice, Roger Franklin, Brian Hinds, Brian Kelly, Olga Kharif, B. Kite, Matt Kopit, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkover, David Shook, Ames Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj, Eric Wahlgen, Heesun Wee
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad, Aixa Pascual. Boston: William C. Symonds (Mgr.), Faith Keenan, Geoffrey Smith. Chicago: Joseph Weber (Mgr.), Michael Arndt, Robert Berner, Roger O. Crockett, Julie Forster, Pallavi Gogi, Danell Little. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), Joann Muller, David Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmeri (Sr. correspondents); Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C. Hamilton, Linda Himelstein (Sr. correspondent), Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.), Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Borus, Dan Carney, Laura Cohn, Stan Cork, Paul Magnusson, Alexandra Star, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang. Douglas Harbrecht (Online Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.), Stephen Baker, Carol Matlack, Andre Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ilwan. Singapore: Michael Shari (Mgr.). Tokyo: Brian Brenner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Robert Pondiscio (Director), Heather Carpenter, Christine Fontaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director), Susann Rutledge (Research mgr.), John Dack (Technology mgr.), Lara Christianson, Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summers

THE STRAIN ON THE CHURCH IS DIVIDING ITS FLOCK

I almost choked on my wafer when I read your quote from R. Scott Appleby that "To regain parishioners' confidence, the Church should start acting like a corporation" ("The economic strain on the Church," Cover Story, Apr. 15). Which monument to public integrity does Mr. Appleby suggest that the Church emulate—Enron Corp.?

Using this logic, the Church could reassure the faithful by publishing financial statements audited by Arthur Andersen. If things continued to be difficult, they could merge with the 700 Club. I'm sure parishioners wouldn't mind. A less drastic solution might be to sell corporate sponsorships. Think how moving it would be to worship at St. Patrick's-Nike Cathedral.

Without doubt, the Church needs dramatic reform on a variety of levels. But as they consider the future, Catholics should draw on their past and follow a higher standard.

Jack Thames
Greensboro, N.C.

It saddens me that the media continue to overlook the pain of the victims, and instead focus on the disturbing cash-flow crisis the Catholic Church has created for itself. Frankly, I see no difference here between the Catholic Church and Enron. Both institutions chose to serve their own needs before the needs of their constituents, and this self-absorption is the root cause of their pain. I hope the Catholic Church goes bankrupt, and perhaps someday folks

will look to their CEO in Rome as a leader who chose not to lead.

David G.W.
Cincinnati

As a Catholic father of four, I'm angry. My faith is strong, but mine is shattered. Am I reluctant to tell priests with my children? You bet. Am I suspicious that any contribution I make might be (mis)directed to support their legal defense? Yes. Catholic fathers had better wake up. They have been out of touch with younger Catholics for years. I won't follow them blindly.

David Aronson
Albuquerque, N.M.

What kind of Church wouldn't pay legal and rehabilitation costs when burdensome? A child in trouble with law or addicted to drugs. The majority of Catholics

will view their holy mother the Church the same way during this crisis.

John E. Anderson
Washington, D.C.

As with many of my fellow parishioners, I recognize that the Church is not a democracy, but we will vote with our money and our feet. Martin Luther is beginning to look a whole lot better these days.

Thomas J. R.
Carlisle, Pa.

TOYOTA IS NOT READY FOR THE RED, WHITE, AND BLUE

Toyota Motor Corp. talks about its desire to become American but has not done so in reality ("The American

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Mastersson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VPS, SALES: Mark A. Flinn (Northeast region and BWTV), Karen Christiansen (Southeast reg.), Grant A. Getz (Midwest reg.)

VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maravay
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. O.
VP, STRATEGIC PLANNING: Kimberly Greer
VP, STRATEGIC PROGRAMS: Jim Richardson
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, MARKETING: Patricia Crocker France
VP, CONSUMER MARKETING: Joyce Swingle

BusinessWeek

A Division of The McGraw-Hill Companies

MAY 6, 2002 (ISSN 0007-7135) * 3781**
 Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).
 Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate \$54.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies/back issues, \$9.95. Call 1-800-258-9867 or email: busweek@mhfi.com. Subscriber Services: 1-800-635-1200. TDD: 1-800-544-1579.
 Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO 80322-3235. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post.

International Publications Mail Product Sales Agreement No. 2464
 Registered for GST as The McGraw-Hill Companies, Inc. GST #R123047621. Copyright 2002 by The McGraw-Hill Companies, Inc. All rights reserved. Registered in U.S. Patent Office. European Circulation Center, Mel House, Maidenhead, Berks, England. Telephone: 01628-23431; Telefax: 01628-23432.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw, President, and Chief Executive Officer; Kenneth M. Vittor, Executive Vice President and General Counsel; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank D. Pengelase, Senior Vice President, Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$1.00 per copy of each article. Send payment to CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address reprint requests to BusinessWeek Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135. PRINTED IN THE U.S.A.



When everything works together,
the results can be quite powerful.

Powerful resources. Precision timing. Proven expertise. That's what makes a truly outstanding performance. And that's what makes AEP stand out. With holdings across the energy spectrum—natural gas lines to barges, coal mines to rail cars—coupled with vast generation resources, we've built our business model on a foundation of solid, diverse assets. And we keep our portfolio dynamic, with the flexibility to take advantage of each new opportunity at the right time. For an energy leader with the expertise to put its resources to work for you, one stands above the rest. AEP.

aep.com

AEP AMERICAN
ELECTRIC
POWER

AEP is a proud sponsor of Cirque du Soleil® 2002 North American Tours
© 2002 American Electric Power Co., Inc.

Readers Report

CORRECTIONS & CLARIFICATIONS

Because of a captioning error on the Ford Motor Co. Web site, the photograph of the SUV identified as a Lincoln Navigator in "Sport-UTE trucks still have miles to go" (BusinessWeek Investor, Apr. 22) is actually a Lincoln Aviator.

In "A bargain hunter scans Europe" (BusinessWeek Investor, April 29), Institutional Capital Corp. was incorrectly identified as ICAP PLC.

tion of Toyota," International Business, Apr. 15). To become a truly American company, Toyota must stop selling its vehicles to regimes hostile to the U.S.: Iraq, Iran, Syria, etc. CNN has footage of Taliban and al Qaeda operatives riding in the back of Toyota pickups. Toyota must follow the same rules imposed on other American corporations by the U.S. government.

Toyota also needs to start working with the United Auto Workers and let its plants become unionized. And Toyota needs to move more of its vehicle production to the U.S., where it makes the most profit and is obliged to create jobs. Let's not allow Toyota to cherry-pick what it wants in the U.S.

Paul C. Lam
Plano, Tex.

STOCK OPTIONS: THE STATUS QUO HAS GOT TO GO

You are wrong, as history will eventually show, and Congress, Warren Buffett, and Alan Greenspan are right ("Don't blame the stock options," Editorials, Apr. 15). Give a CEO enough stock options, and he prospers, regardless of what happens to his company. Look at Ford Motor Co. Look at Enron Corp. Just look at what is happening at Oracle Corp., or any other company relying on stock options. Executives are looking out for No. 1. The CEO cashes in his options and walks away with millions and doesn't have to sweat whether his company succeeds or goes belly-up. That is incentive?

Robert E. Schuhmann
LaGrange, Tex.

Thank you for helping spread the word on the material—and in many cases egregious—transfer of wealth from shareholders to employees through options ("Reckoning the cost of stock options" and "How to clean up the options mess," BusinessWeek Investor,

Apr. 15). I am tired of reading in the press about how options "align the interests" of management with shareholders. To say this is to misunderstand what an option is: pure upside with no downside. Instead of options, the solution is to issue shares of restricted stock, based on performance, then have this stock vest over an extended period.

Restricted stock must be expensed, so it doesn't artificially inflate the income statement, and recipients participate dollar-for-dollar with shareholders—on the downside as well as the upside. I agree wholeheartedly with Chris Waldorf of Deloitte & Touche LLP: Shareholders need to wake up and demand an end to the looting.

Kenneth F. Broad
San Francisco

It strikes me that the way to encourage companies to provide more of the performance-based options described in "How to clean up the options mess" is not to change the rules for accounting for fixed options but to change the rules for variable options so that the current bias against their use is eliminated. I would argue that TIAA-CREF CEO John Biggs is misguided. If you make companies expense fixed options, they will dry up as well.

Mark Nebergall
Washington

DON'T MOURN THE CHEAP MONEY JUST YET

While there is a higher cost to refinancing commercial-paper liabilities with longer-term securities, in many cases it may be a lot less [than you indicate in] "There goes the cheap money" (News: Analysis & Commentary, Apr. 15). This can happen if a company uses the interest-rate swap market to change the fixed-rate payments to floating-rate payments. For example, in the current environment an AAA issuer's net cost to convert a 10-year fixed obligation back into a floating-rate obligation is only 0.50%. Lower-quality issuers would certainly incur a higher net cost, but that can be mitigated somewhat by using a shorter maturity than 10 years.

Of course, if the company chooses not to swap his fixed payment for a floating one, its costs would rise. In addition, the company certainly can choose to swap only a portion of the fixed debt if it is uncomfortable with current swap levels, preferring to wait for a more opportune moment.

Robert Parish
Yardley, Pa.

WHAT'S MISSING FROM MEDIA COVERAGE OF THE GENOME?

As one of the leaders of the effort to map the variance in the human genome, I can say *BusinessWeek* did a nice job of raising the ethical, privacy and control issues associated with issues that contain genomic and gene expression data and are linked to individual medical data ("Human tissue: Handle with care," Science & Technology, Apr. 15). The next step in your analysis should be to explore the need for a more coherent legal approach to the matters. The very issues raised by genomic technology are being addressed by the creative application of information technology. As readers, we need to get all angles of progress in this important new frontier.

Arthur L. H...
Chairman &
First Genetic T...
Deerfield

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives starting in 1991 are available on the World Wide Web.

www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: *BusinessWeek*, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

Fax: (212) 512-6458

Email: bwreader@businessweek.com

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>

(click "Manage Your Account")

For individual subscriptions, corporate subscriptions and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

Email: bwcustomerservice@neodata.com

Library fee-based services: (212) 512-6704

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

Email: bw_group@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

Email: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use; \$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

Email: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm

Years of Lyndon Johnson
MASTER OF THE SENATE
 Robert A. Caro
 pf • 1,167pp • \$35

THE GREATEST POWER BROKER OF THEM ALL

Any reader of Robert A. Caro's mammoth and extraordinary *The Years of Lyndon Johnson: Master of the Senate* will be left with overriding impressions. No. 1: LBJ is a beguiling character—so ruthless, so ambitious, and ingenious that this hypercritical biographer has been able to enthrall thousands of readers to spend countless hours during the past 20 years plowing through 2,540 pages on Johnson's life.

No. 2: Caro must be America's greatest living Presidential biographer. In his third volume on Johnson, he enthralls us with both his words and his research. With due deference to David McCullough, no other contemporary biographer offers such a complex picture of the forces driving an American politician, or populates his work with such vividly drawn secondary characters. While some will find Caro's brand of idealistic liberalism a bit dated in these post-9/11 times, his scholarship will win him all but the most avid Johnson hater or retro-racists.

Master of the Senate chronicles LBJ's meteoric rise in Congress during the decade following his victory in the infamous stolen election of 1948. Caro documents how the junior senator from Texas succeeded by repeating his pattern of the past: forging fast friendships with powerful older men through flattery, rank obsequiousness, and persistent courtship. In his years of ascent, his mentors ranged from college friends to President Franklin D. Roosevelt. In Caro's third volume, the lone bachelors who become LBJ's father figures and political patrons are House Speaker Sam Rayburn, a prickly populist from the Red River Valley, and hard-bitten Brevard Russell Jr., a courtly segregationist senator from Georgia.

Indeed, the central drama in *Master of the Senate* is the ugly battle for

racial justice that scarred the nation in the decades following World War II. It focuses on two characters: Russell, leader of the racist Southern bloc in the Senate, and Hubert Humphrey, the former boy-wonder mayor of Minneapolis, who quickly becomes the leader of the left-wingers. Humphrey is a liberal hothead and an eloquent orator, whom Caro compares to William Jennings Bryan. But he's a pariah in a Senate Democratic caucus dominated by long-serving Southern segregationists—who hate everything that Humphrey stands for—until LBJ convinces them that his friend Hubert is not such a bad guy after all. Russell is the Senate's most effective defender of "the lost cause" of the Confederacy. A cultivated patrician, he has only disdain for foul-mouthed Southern demagogues such as Mississippi's Senator Theodore G. Bilbo and Georgia's Governor Eugene Talmadge. But Russell is an avid white supremacist, and he uses his considerable parliamentary skills to frustrate the bipartisan legislative majority that wants to prod the Senate into the 20th century.

Like Johnson, both Russell and Humphrey aspire to the Presidency. Caro shows how LBJ seduces and uses both men in his rise to power. And that rise is impressive: With the blessing of Russell, Johnson becomes Senate Democratic Whip, the second-ranking leadership position, just two years into his first term. Two years later, at age 44, he becomes the youngest Senate Majority Leader in American history. Using the skills he learned from his brilliant mentors, LBJ then concentrates unprecedented powers in the leader's office, hoping to use his clout to become the

first Southerner elected President since the Civil War.

In Caro's portrayal, Johnson is perhaps the most skilled politician on the mid-century American stage, although the author frequently reminds us that Johnson was a man of flexible principles whose overriding goal was to gain power. He placed his interests first, writes Caro. But "there were times when those interests coincided...with the highest of America's interests, the great liberal cause, the cause of social justice. And when they did, the cause advanced."

Caro describes how LBJ used guile and, occasionally, parliamentary tricks to expand public housing, increase the minimum hourly wage from 75¢ to \$1.25, and smash the seniority system that denied institutional power to liberals.

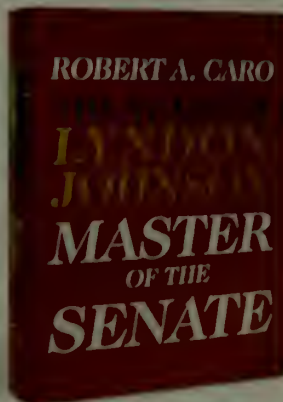
But his signal accomplishment was to pass the first civil rights legislation since Reconstruction. Granted, the 1957 voting-rights bill was so watered down that liberals cried betrayal. But Johnson, the sometime segregationist, managed to accomplish what no other lawmaker could—and what no Dixie Democrat had ever contemplated in those days of American apartheid.

Caro's extended discussion of the legislative maneuvering and backroom drama is adept. But the author is at his best when relating the impact of congressional action on Americans' lives. You can almost smell the musty offices in the Barbour County Courthouse in Eufala, Ala., as black citizens try in vain to register to vote. And you can feel the pain of Maud Olds after LBJ leads the savage confirmation fight against her husband, Federal Power Commission Chairman Leland Olds, in a heavy-handed attempt to curry favor with Texas utility companies.

At times, Caro's Johnson-loathing gets annoying. There's plenty of evidence LBJ sought a better life for the downtrodden, such as those living in the impoverished rural areas where he grew up—and not just for himself. Flaws and all, this massive book is difficult to put down.

BY RICHARD S. DUNHAM

Former Texas reporter Dunham has followed the Caro-Johnson saga since its beginning.



LBJ EMPLOYED CHICANERY TO ADVANCE HIMSELF—AND SOMETIMES THE CAUSE OF SOCIAL JUSTICE



IBM PCs use genuine Microsoft Windows
www.microsoft.com/piracy/howtotell

An embedded security chip on select models that encrypts documents. An optional service¹ that can trace a stolen computer. **Security.** It's just one of the reasons why some of the world's most successful people choose ThinkPad notebooks. Select models feature a Mobile Intel® Pentium® 4 Processor-M for outstanding performance and mobility. Call **1.877.thinkpad** or visit **ibm.com/thinkpad**



on the road and in negotiations

Judith Regan, *Publisher, ReganBooks/HarperCollins*

IBM

ThinkPad ● Where do you do your best thinking?
notebooks

PC Tracking and Lock Control provided by Absolute Software, Inc. IBM product names are trademarks or registered trademarks of International Business Machines Corporation. Intel, the Intel Inside logo and Pentium are trademarks or registered trademarks of Intel Corporation or its subsidiaries in the United States and other countries. All other company names are trademarks of their respective companies. © 2002 IBM Corp. All rights reserved.

The BusinessWeek Best-Seller List

HARDCOVER BUSINESS BOOKS			LAST MONTH	MONTHS ON LIST	PAPERBACK BUSINESS BOOKS			LAST MONTH	MONTHS ON LIST
1	WHO MOVED MY CHEESE? Spencer Johnson (Putnam • \$19.95) <i>Learning to accept change.</i>	1	39		1	RICH DAD, POOR DAD Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$15.95) <i>Teach your kids the rules of money that the rich play by.</i>	1		
2	GOOD TO GREAT Jim Collins (HarperBusiness • \$27.50) <i>How run-of-the-mill companies make the leap to excellence.</i>	3	6		2	A BEAUTIFUL MIND Sylvia Nasar (Touchstone • \$16) <i>A biography of Nobel laureate John Forbes Nash Jr.</i>	3		
3	FISH! Stephen C. Lundin, Harry Paul, John Christensen (Hyperion • \$19.95) <i>Motivate employees the Pike Place Fish Market way.</i>	2	19		3	FAST FOOD NATION Eric Schlosser (HarperCollins • \$13.95) <i>The bad news on burgers.</i>	4		
4	JACK Jack Welch, with John A. Byrne (Warner Business • \$29.95) <i>GE's ex-chairman reflects on his life and accomplishments.</i>	4	7		4	RICH DAD'S RETIRE YOUNG RETIRE RICH Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$17.95) <i>Plan ahead.</i>	2		
5	PRIMAL LEADERSHIP Daniel Goleman, Richard Boyatzis, Annie McKee (Harvard Business School • \$26.95) <i>Using "emotional intelligence" as a leadership tool.</i>	8	2		5	THE TIPPING POINT Malcolm Gladwell (Back Bay • \$14.95) <i>What turns an idea into a hot trend.</i>	6		
6	FIRST, BREAK ALL THE RULES Marcus Buckingham, Curt Coffman (Simon & Schuster • \$26) <i>A Gallup probe into managerial success.</i>	5	35		6	THE 7 HABITS OF HIGHLY EFFECTIVE PEOPLE Stephen R. Covey (Fireside • \$14) <i>Habitually popular.</i>	5		
7	THE ROAD TO WEALTH Suze Orman (Riverhead • \$29.95) <i>Questions and answers from the queen of personal-finance counseling.</i>	14	9		7	SUZE ORMAN'S FINANCIAL GUIDEBOOK Suze Orman (Three Rivers • \$11.95) <i>Financial self-help, in workbook form.</i>			
8	NOW, DISCOVER YOUR STRENGTHS Marcus Buckingham, Donald O. Clifton (Free Press • \$26) <i>How to bolster your true talents.</i>	6	15		8	GETTING TO YES Roger Fisher, William Ury, Bruce Patton (Penguin • \$14) <i>A Harvard team's step-by-step guide to conflict resolution.</i>	13		
9	THE LEADERSHIP SECRETS OF COLIN POWELL Oren Harari (McGraw-Hill • \$21.95) <i>Atten—shun!</i>	11	2		9	RICH DAD'S CASHFLOW QUADRANT Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$17.95) <i>Move from job security to financial independence.</i>	17		
10	WHALE DONE! Ken Blanchard, Thad Lacinak, Chuck Tompkins, Jim Ballard (Free Press • \$19.95) <i>Tips from Shamu's trainers.</i>		1		10	REAL ESTATE RICHES Dolf De Roos (Warner • \$17.95) <i>Why buildings are better investments than stocks.</i>	10		
11	THE ULTIMATE SAFE MONEY GUIDE Martin D. Weiss (Wiley • \$24.95) <i>Where to stash your cash.</i>	9	2		11	KITCHEN CONFIDENTIAL Anthony Bourdain (Ecco • \$14) <i>A peek inside the restaurant industry, by a veteran chef.</i>	9		
12	BUCK UP, SUCK UP... James Carville, Paul Begala (Simon & Schuster • \$23) <i>Irreverent maxims from the Clinton campaign crew.</i>	7	3		12	THE ONE MINUTE MANAGER Kenneth Blanchard, Spencer Johnson (Berkley • \$12.95) <i>Management techniques in story form.</i>			
13	THE 21 IRREFUTABLE LAWS OF LEADERSHIP John C. Maxwell (Thomas Nelson • \$22.99) <i>A minister's down-to-earth rules.</i>	10	18		13	THE 9 STEPS TO FINANCIAL FREEDOM Suze Orman (Three Rivers • \$13.95) <i>Learn to save.</i>	15		
14	RAVING FANS Ken Blanchard, Sheldon Bowles (Morrow • \$20) <i>Turning customers into your biggest boosters.</i>		41		14	THE ERNST & YOUNG TAX GUIDE 2002 The Tax Partners and Professionals of Ernst & Young LLP (Wiley • \$16.95) <i>Time's up.</i>	7		
15	GUNG HO! Ken Blanchard, Sheldon Bowles (Morrow • \$20) <i>How Walton Works No. 2 fired up its employees.</i>	13	35		15	WHAT COLOR IS YOUR PARACHUTE? Richard Nelson Bolles (Ten Speed • \$16.95) <i>The 2002 edition of the enduring job-search bible.</i>			

BusinessWeek's Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on economics, management, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are represented. Current rankings are based on a weighted analysis of unit sales in March.

Reviews and more are available on AOL (Keyword: BW) or www.businessweek.com

HOT TYPE

AT SOME POINT, WRITERS OF INSPIRATIONAL management books are going to run out of animals. Fish, mice, sharks, squirrels, beavers, and geese have helped point the way to wisdom. Now, with this month's No. 10 hardcover, *Whale Done!* from the Ken Blanchard book machine, even Shamu gets into the act.

Whale Done!'s fundamental idea is that you can, uh, attract more flies with honey than with vinegar. "Catching people doing things wrong is easy," observes one of the book's fiction-

al characters. Instead, we're told, managers must accentuate the positive—just as SeaWorld's whale trainers do. Managers should praise subordinates who perform well, redirect those who make mistakes, and instill a desire to excel.

This isn't much different from the advice Blanchard offered in his 1981 best-seller, *The One Minute Manager*, which instructed bosses to "catch people doing things right." But that book had no animals. In today's zoo, that book seems like a dinosaur.

BY HARDY GRE

The flat out clear choice.

WiseView™ at any angle.



Now you can get distortion free viewing 1.8" to 40" displays with outstanding clear resolution. The choice is clear. The choice is WiseView digital displays by Samsung.

WiseView technology that's ahead of its time. Every TFT-LCD visual display on a cell phone, notebook, monitor, PDA, LCD TV or game with the WiseView

logo has the reliability, clarity and quality that you can expect from Samsung.

WiseView from Samsung. When you're looking for the perfect view, look for the WiseView logo. It's flat out the clear choice.

For more information, visit us at
www.samsungTFTLCD.com.



SAMSUNG TFT-LCD



notebook

monitor

PDA phone

LCD TV



WiseView is a trademark owned by Samsung Electronics

HOW TO RUN A GLOBAL IT NETWORK.

THE WALL STREET JOURNAL.

© Dow Jones & Company, Inc. All Rights Reserved.

Glass Floor
How Colleges Reject
The Top Applicants—
And Boost Their Status
Accepting Only the Students
Likely to Enroll Makes
A School Look Selective
"They Were Simply Too Good"

By DAVID GILBERT
Small Reports of the Wall Street Journal
When it came to choosing next year's
freshman class at Franklin and Marshall
College, admissions director Gregory
Goldsmith hit upon a curious way of boost-
ing the Lancaster, Pa., school's status.
He spurned 148 of its smartest applicants.
The prospective students' entrance
scores were above the average for ap-
plicants to the college. In past years, Mr.
Goldsmith says, the college usually ad-
mitted students who qualified academically
but hadn't bothered to interview
with the school. And usually, only half a
dozen or so of them would enroll. "They
think they're too good," Mr. Gold-
smith says.
So he relegated the overachievers to
the waiting list. By doing so, he won a
statistical boost, making the liberal-
arts college appear more desirable and
selective without actually raising the
admission standards. The school's class
rankings were improved by about the
same amount as the number of students
who were rejected. "We're not rejecting
them for any reason," Mr. Goldsmith
says. "We're just rejecting them for a
better offer."

Available for Manipulation
Behind this shift is a statistic known
as the yield rate—the percentage of ac-
cepted applicants who then enroll. College
rankings, based on the yield rate, are
published by the U.S. News & World
Report. The yield rate, along with a col-
lege's acceptance rate, is a measure of a
college's appeal. The yield rate is also
used by a college's ranking in the "ac-
ademic excellence" category.

What's News—

Business and Finance

THE FED CUT short-term in-
terest rates by one-half per-
centage point to 2 1/4%, marking
the 10th such reduction so far this
year. The surprise move boosted
bonds and sparked a rally in the
blue chips, which rose 1.2% in
early trading. Fed officials, under fire
for failing to respond decisively to
the 11 terrorist attacks, also cut the
discount rate. Consumers can ex-
pect lower mortgage rates.

By DAVID GILBERT
Small Reports of the Wall Street Journal
Echostar launched a \$300 mil-
lion bid for Hughes Electronics.
The unshuffled stock offer for
Hughes, owner of DirecTV, came
three weeks after Echostar ap-
peared to drop its quest for
Hughes, whose parent Odey had
been weighing a News Corp. bid.

Financial firms and federal
law enforcement agencies are
weighing a data-sharing pact that
could give authorities access to
bank records to track terrorists
using the U.S. financial system.

Southwest Airlines will add 13
planes to its fleet as the market
prepares to expand into
more markets and grab market
share from cash-strapped rivals.

The Justice Department and
FBI plan charges in the way
mergers are reviewed, a move
that could cause a shift in antitrust
oversight of media industries.

A slump in manufacturing pro-
duction showed signs of ending

World-Wide

CONGRESS PASSED legislation
aimed at curbing terrorist activities.
The House and Senate, meeting
quickly after Sept. 11, approved the
measure, which would require
federal agencies to report people
involved in terrorism. The bill
also would require federal agencies
to report people who provide
information to terrorists. The House
passed the bill by a vote of 387-1.
The Senate passed it by a vote of 93-0.

ISRAELI POLICE KILLED a Palestinian
in a raid on a house in the West Bank.
The police said the man was a
member of a militant group.

OFFICIALS OF A U.S. bank charged
with aiding Osama bin Laden in
his efforts to raise money for
terrorism were indicted.

THE PORTUGUESE DISCOVERED
the remains of a shipwrecked
Portuguese ship in the Azores.

IN A MEXICO CITY court, a
Mexican man was charged with
murdering a U.S. man.

A slump in manufacturing pro-
duction showed signs of ending

On the Rebound

Fed's Surprise Rate Cut Sparks Greenspan's Move Makes Wall Streeters Giddy: Will the Thrill Last?

Nasdaq Bounds 2.3% Higher

By GREGG KRAMER
Small Reports of the Wall Street Journal
WASHINGTON—The Federal Reserve
cut interest rates by half a percentage
point to their lowest level since 1961,
and citing the deteriorating overseas
economy, suggested more cuts could be
in store.
The Fed cut its benchmark federal
funds rate target to 2% from 2 1/4%.
The move was widely expected, but
the Fed's move cut by a quarter of a
percentage point. The half-point cut im-
proved the central bank's deeply con-
cerned view of the economy, after a con-
tinued decline in the first recession
since 1980-81.

Hat-Tossing TV Girl Makes a City Debate Limitations of Statute

Does Giving Bronze Treatment To Mary Richards Amount To a Monumental Mistake?

By JEFFREY LARSON
Small Reports of the Wall Street Journal
MINNEAPOLIS—Washington has re-
pealed its ban on the statue of a woman
in a hat. The city of Minneapolis has
decided to give a statue of Mary Rich-
ards, the character of "The Mary Tyler
Moore Show," the same treatment.

Two Airlines P New Mergers Suggest Consolidation May The Best Flight P

By JEFFREY LARSON
Small Reports of the Wall Street Journal
MINNEAPOLIS—Washington has re-
pealed its ban on the statue of a woman
in a hat. The city of Minneapolis has
decided to give a statue of Mary Rich-
ards, the character of "The Mary Tyler
Moore Show," the same treatment.



PRESENTING TODAY'S WALL STREET JOURNAL, including Personal Journal — a new section covering the business of life. You'll also find the whole paper easier to navigate, with an

HOW TO RUN YOUR PDA.

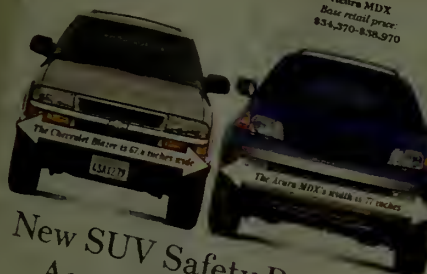
PERSONAL JOURNAL.

Personal Finance • Travel • Health & Family • Cars • Gadgets • Leisure & Arts

THE WALL STREET JOURNAL.

Chevrolet Blazer
Base retail price:
\$19,170-\$22,125

Acura MDX
Base retail price:
\$34,370-\$38,970



Will the Rate Cut Pay Off for You?

Greenspan's Latest Move Lowers Cost of Loans,
But Credit-Card Savings Are Harder to Find

By RUTH SIMON
Staff Writer of The Wall Street Journal

THE FEDERAL RESERVE yesterday, hoping to ease borrowing costs for businesses hard hit by the recent sharp rise in oil prices, cut the prime rate to 5 1/2 percent.

Who Will Save

Now the Fed's half-point cut will affect different rates

Winners

■ Adjustable-rate mortgages

■ Look for credit cards with

1% lower rates

■ Home-equity loans drop by

one percentage point

Losers

■ Money-market fund interest

■ Existing credit-card rates

■ Interest rates on 30-year

fixed-rate mortgages that

are above 7%

rates, yesterday lowered its target for the federal funds rate, which banks charge each other for overnight loans, by a half point to 7%. The central bank also lowered the discount rate, the price the Fed charges when it lends to banks, by a half point to 10%.

Like earlier rate reductions, yesterday's cuts should trim borrowing costs for corporations, especially those that rely heavily on short-term interest rates. But the move may not always flow through to consumers as quickly as hoped.

Lower rates in corporate bonds, especially risky high-yield "junk" bonds, should also benefit, as the rate cuts prop up the economy and reduce the chance of recession, according to Chicago-based economists. Mortgage funds gained an average 1.5%

loc. junk bond yesterday.

But not all the news is good. While consumers and some bondholders may benefit, savers will not. Certificates of deposit continue to tumble. Bank average yield for five-year CDs is currently 5.67%, down from 6.75% at year end. Moreover, home buyers who take out 15- or 30-year fixed-rate mortgages are unlikely to see rates drop.

(Please Turn to Page 12, Column 1)

New SUV Safety Rankings Assess Rollover Risks

Some Ford, Chevy Models
Earn High Safety Ratings;
Yet Other Makes Fare Poorly

By STEPHEN FROST
Staff Writer of The Wall Street Journal

A BITTLE-CONTENDED vehicle-rating system gives low marks to some sport-utility vehicles because of their tendency to roll over in single-vehicle accidents.

The ratings, which have been in the works for some time, are part of a new effort by the National Highway Traffic Safety Administration (NHTSA) to improve the safety of its vehicles over the next four years, including stability control, better brakes and air bags.

to roll over in real-world conditions. NHTSA based its ratings on a statistical factor called the "rollover resistance" of a vehicle, which is a measure of the vehicle's ability to resist tipping over. A five-star rating means a vehicle has a rollover risk of less than 10%. Four stars mean a risk of 10% to 15%. Three stars mean a risk of 15% to 20%. Two stars mean a risk of 20% to 25%. One star means a risk of 25% to 30%.

Also makers and consumer groups have criticized the ratings system for not incorporating real-world test rather than a mathematical formula. Congress last fall directed NHTSA to come up with a new test rather than a mathematical formula. Congress also directed NHTSA to come up with a new test rather than a mathematical formula.

(Please Turn to Page 12, Column 1)

New Test Predicts Likelihood of Alzheimer's

ever-so-tasteful use of color. To subscribe call 1-800-JOURNAL or log on to wsj.com.

THE WALL STREET JOURNAL.
Business. And the Business of Life.

BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

WI-FI TIPS FOR WAYFARERS



As Wi-Fi cafés proliferate, so do products working toward cheap and seamless streaming

On a stopover during a long flight, the first thing I want to do is check my e-mail. If I'm lucky enough to have access to an airline club with phones available, I can look forward to the tedious download of dozens of messages over a dial-up line. But at a growing number of airports, such as Dallas-Fort Worth and Seattle's SeaTac, I can fire up my laptop, log on to a wireless network, and download my messages almost instantaneously.

Public wireless Ethernet, offering speeds comparable to typical office networks for prices usually around \$8 to \$10 a day, are cropping up in airports, hotel public areas, coffee shops, and other "hot spots" around the country. Companies such as Wayport and VoiceStream Wireless' T-Mobile (formerly Mobilestar) have offered such services for a couple of years. But several factors are making them more available and easier to use ("All Net, All the Time," Special Report, Apr. 29).

The most obvious factor is that the popularity of wireless networks using the same Wi-Fi technology in offices, campuses, and even homes means that far more laptops are equipped with the proper adapters. In fact, many laptops now come with Wi-Fi (also known as IEEE 802.11b) transceivers built in. Or you can add a Wi-Fi PC card, which starts at about \$80.

Microsoft has made Wi-Fi use much easier by building good support for it into Windows XP. When you click on the system tray icon of your Wi-Fi adapter, a menu offers to show you any available network. You click on your choice of network, enter a password if needed, and you're on the Internet. Sometimes you can just take advantage of a network in the neighborhood that has been left open for access by anyone.

Finally, tiny islands of wireless availability are combining into much larger areas of wireless

coverage. In the past, an account with Way did you no good in an American Airlines A rals' Club, where the service came from T-M. But aggregators such as Boingo Wireless, i and Gric Communications are striking deals them offer a single account that provides a to many networks.

Boingo, for example, offers three service els: A one-day sign-in for \$7.95, 10 connect a month for \$24.95, or unlimited monthly se for \$74.95. This gives you access to the works of Boingo partners, from major prov such as Wayport to little independents (bu at the hundreds of Starbucks shops with T bile service; so far, VoiceStream is going it a Boingo's software lets you "sniff" available works on any version of Windows, but the rent version requires turning off XP's bu Wi-Fi support.

Wonderful as public Wi-Fi still only solves part of the bile data problem. Availa will probably always be ited to hot spots ra than the wide areas ered by the data se es of wireless-pl carriers. Wi-Fi tec ogy is cheap and ple, but only t channels are avai in any location. I many networks set up too close gether, they knock each other the air. Since the gigahertz spect they use is unreg ed, there's no good to resolve conflicts.

situation will imp somewhat with a migra starting later this year, faster 5 GHz standard ca 802.11a, which offers 11 chan Wi-Fi allows only limited mobi

Unlike cellular networks, Wi-Fi does provide seamless transfer from one base sta to another as you move. This is not much problem for laptops, which usually stay in place while being used, but is a serious limita for pocket PCs and other handhelds.

Wi-Fi is also inherently insecure. Experime have shown that even the "strong" 128-bit encryption is easily defeated. Mobile executi should use their companies' virtual private works (VPN) to encrypt data exchanged v corporate servers. Otherwise, avoid sending s sive information over a Wi-Fi network.

Despite the limitations, Wi-Fi has tremend potential to make mobile life easier. Some c third-generation wireless phone networks r make high-speed data services available eve where. But that's years away, and Wi-Fi is h today and growing fast.



BusinessWeek online

FOR A COLLECTION OF PAST COLUMNS and online-only reviews of technology products, go to Technology & You at www.businessweek.com/technology/

One button. Infinite reach.



Only WebEx is equipped to deliver Web conferencing services with the reliability, scalability, and security your business requires. Though a number of companies are attempting to follow our lead, none come close to the tremendous reach and power of our global carrier-grade network featuring built-in redundancy and real-time switching—like the ubiquitous telephone network. The result? It's incredibly easy to communicate securely and conduct business with infinite confidence no matter how far and wide your meeting must reach. Bringing the meeting to you—wherever you may be. Visit us at webex.com or call 877-50-WebEx (877-509-3239).

BY ROBERT J. BARRO

THE U.N. IS DEAD WRONG ON POVERTY AND INEQUALITY



UPSWING:
Since 1970,
world
poverty has
in fact
shrunk
markedly,
and with
China and
India
growing fast,
inequality
has, too

Robert J. Barro is a professor of economics at Harvard University and a senior fellow of the Hoover Institution (rjbweek@harvard.edu).

According to the U.N., growing poverty and inequality are the world's main economic threats, and unchecked globalization and market expansion are largely to blame. For example, the 1999 Human Development Report says: "When the market goes too far in dominating social and political outcomes, the opportunities and rewards of globalization spread unequally and inequitably... The past decade has shown increasing concentration of income, resources, and wealth." In response to the perceived threat, the U.N. proposes to improve governance, by which it means an increase in the power of international organizations, especially the U.N. But before opting for more world government, perhaps we should explore the facts about inequality.

One point is that poverty and inequality are two different concepts. Poverty refers to the fraction of the population, or the number of people, whose income falls below a designated amount intended to reflect some minimally acceptable standard of living. To be meaningful, the standard must remain fixed over time; two common ones are thresholds of \$1 or \$2 per day (in 1985 dollars). In today's dollars, these standards translate into annual per capita incomes of about \$500 and \$1,000.

When measured in these terms, world poverty has fallen dramatically in the past 30 years. Xavier Sala-i-Martin estimates in an unpublished study, "The World Distribution of Income" (Columbia University), that the number of people in extreme poverty—below the \$1-a-day standard—fell from 550 million, or 17% of the world's population in 1970, to 350 million, or 6.7% of the population at the end of the 1990s. For the \$2-a-day standard, the decline was from 1.3 billion people, or 41% of the population, to 970 million, or 19% of the population. Thus, the past 30 years have seen a dramatic decline in world poverty—not exactly the picture painted by the U.N.

For world inequality, we can think of the changes in two parts. The first is within countries, the second is across countries. Inequality has risen in the past 30 years within several countries, including the U.S., Britain, Australia, and China. Considering the world as a whole (by weighting according to the populations of all of the countries), Sala-i-Martin shows that this factor implies a rise in world income inequality. But he also shows that this effect is small. More important are the cross-country changes in the dispersion of average incomes.

Looking across countries, one's first impression

is that the spread of average incomes has since 1970. For example, the ratio of the high per capita incomes (in the U.S. and Western Europe) to the poorest (in sub-Saharan Africa) has grown. However, this change was more offset by the rise in income in the world's largest countries, China and India. China, which now has 21% of world population, has grown rapidly since 1978. India, which has 17% of world population, has also grown fast since 1990. Since these countries were poor in the 1970s, and they account for 38% of the world's population, their rapid economic ascent implies a substantial narrowing of world inequality.

One irony is that continued rapid growth in China and India in the next decade is likely to lead to rising world income inequality. That is because these countries would continue to diverge toward the world's richest countries, away from the world's poorest in Africa. However, a reasonable assessment is that the problem is not rapid growth in China and India, but rather, slow growth in Africa.

Since China and India had many people in poverty in the 1970s, their fast growth is a factor behind the reductions in world poverty. Developments in two other large countries mattered significantly—fast growth in Indonesia (through 1997) and disastrous negative growth in Nigeria. The success stories in Asia mean that Africa now plays a dominant role in world poverty. Sala-i-Martin estimates that at the end of the 1990s, 66% of those with incomes below \$1 a day resided in sub-Saharan Africa. In 1970, this fraction was only 11%. At the \$2-a-day level, the comparable figures are 38% and 11%. Further reducing world poverty will require a greater focus on the African poor. Given the slow average incomes in African countries, income redistribution is no answer. The main solution to involve raising the overall rates of economic growth in Africa.

The U.N. Human Development Reports should base their assessments of world poverty and inequality on a better understanding of the facts. It is incorrect to argue that world poverty and inequality have been rising over the past 30 years and then to attribute this fictional development to unchecked globalization and market expansion. These poorly grounded observations from an apparently respectable source feed into the false arguments of the world's "globaphobes," who generally opposed to economic development. Globophobia will neither help to reduce world poverty nor spur economic growth in Africa.



Wouldn't life be easier if one shipping company gave you all the shipping choices you really wanted? That's what Brown can do. We'll get your shipments to your customers, wherever they are, whenever you need to get it there. That means shipping on your terms and on your schedule. Instead of multiple pickups from multiple drivers, you'll have one driver, one pickup and one bill. Brown keeps it simple. **WHAT CAN BROWN DO FOR YOU?™**

and the Shipping Manager



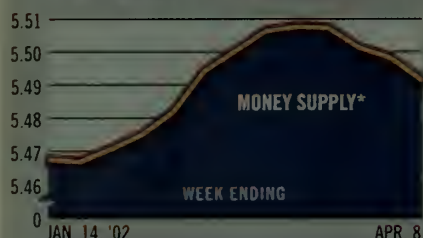
EDITED BY MICHAEL J. MANDEL

A U-TURN FOR THE MONEY SUPPLY?

A fall may point to a rising economy

For much of the 1970s and 1980s, it was an article of faith among many economists that increases in the money supply were a reliable predictor of increases in future economic activity. That assumption was put to the test in the 1990s, when it appeared that the link between the money supply and the real

THE MONEY SUPPLY SLIDES



▲ TRILLIONS OF DOLLARS

*M2, WHICH INCLUDES CASH, SAVINGS AND CHECKING ACCOUNTS, SMALL CERTIFICATES OF DEPOSIT, AND MONEY-MARKET FUNDS. BASED ON FOUR WEEK MOVING AVERAGE. SEASONALLY ADJUSTED.

Data: Federal Reserve

economy was becoming more tenuous.

Now, in the ultimate monetary perversion, some economists believe a declining money supply may be good news for the U.S. economy. The supply of M2—checking and savings accounts, small CDs, and money-market funds—has fallen by about \$16 billion since mid-March, according to Federal Reserve data (chart). In the past, that may have been seen as a sign of economic weakness, since less need for cash would suggest that individuals and businesses aren't doing as many transactions.

This time around, the decline in the money supply may mainly reflect the increased bullishness of investors. What's happening is that they are shifting from cash and money-market funds, which are part of M2, into longer-term investments, such as bond funds, which are not. "The money supply shrinks, but it's not a sign of weakness," observes Ethan Harris, chief U.S. economist at Lehman Brothers Inc. "It's a sign of confidence."

Similarly, the strong growth in the money supply in 2001 may have partly reflected the weakness last year in the economy and stock market. During all of 2001, the money supply, as measured by M2, jumped 10.4% as investors pulled money out of the stock market,

says John Youngdahl, a vice-president and senior economist at Goldman, Sachs & Co. Observes Harris: "When people are nervous about the economy, they pile into the safest investment—cash."

Is there any way to turn the money supply back into a reliable economic indicator again? Youngdahl points out that a big part of the movement in the money supply over the past six years has come from shifts in money-market funds. That's where investors tend to park cash when they are afraid to take a chance on the bond or stock markets. Hence, a more reliable measure of the money supply might be M2 minus the amount of money in money-market funds. Toting it up that way, the money supply has grown slightly in the past two months—just as traditionalists would say it should have going into an economic recovery.

Still, innovation by Wall Street firms is changing the nature of the financial system so quickly that even a monetary indicator that works today may fail tomorrow. It may just be time to let the money supply quietly retire as an economic forecasting tool.

By Margaret Popper

YEP, IT WAS A RECESSION

Revised data show a weaker 2001

A report released by the Bureau of Economic Analysis on Apr. 23 suggests that personal income—and the economy—were weaker in 2001 than previously thought. Based on newly available data on wages, salaries, bonuses, and other payments to labor, the new figures chop about \$90 billion, or about 1%, off personal income.

These revised figures bolster the case that last year's slowdown really does deserve to be called a recession. The original numbers showed that personal income, adjusted for inflation, rose by a decent 1% from the first quarter of 2001—when the downturn officially started—to the end of the year.

But according to the new data, real personal income rose by only 0.1% over that period. That's still relatively mild compared with the 1990-91 recession, but it's consistent with the distress that many Americans felt last year.

Where were the downward revisions the biggest? California was the hardest hit in percentage terms, with third-quarter personal income reduced by 2.5% below the previous estimate. Close be-

hind were other tech-heavy states, as North Carolina, Virginia, and Massachusetts—a sign that the original numbers had underestimated the impact of the tech bust.

BANKS MAY HOLD GERMANY BACK

Companies need financing to grow

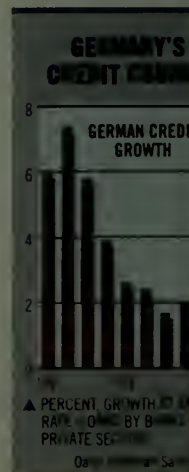
Germany's banks are lending less money to industry, threatening the country's nascent recovery. Credit growth to the private sector slowed dramatically over the past two years, from an annualized rate of 0.3% in the first quarter of 2000 to 0.3% in the first three months of this year.

In part, banks are pulling back because of a surge in German corporate bankruptcies. According to Creditreform, which collects data about corporate failures in Germany, insolvency will rise by 24% this year, to 40%. That includes huge outfits such as construction company Philipp Holzmann and aircraft manufacturer Fairchild Dornier and media conglomerate Kirch. The latter alone is estimated to have debt of at least \$5.5 billion, of which \$3.8 billion is owed to six large banks. "Banks are reluctant to lend in this environment," says Thomas Mayer, director of economic zone research at Goldman Sachs & Co. in Frankfurt.

Banks' willingness to lend has been hurt by rising concerns about profitability. Shareholders are demanding a better return on equity than what the sector has been averaging. So banks can no longer afford to lend as cheaply as they once did—but they can't raise rates because competition is so tough. Their answer is to move out of lending and into fee-based capital market products, such as equity underwriting.

So increasingly, many borrowers—especially the mid-size *Mittelstand* companies that are the backbone of the economy—can't get the financing they need to grow. And that, say economists, means German growth will be slower than originally forecast.

By David Fairclamb



There's a new measure of how an agile business must run.

Microsoft®

That's 1° of separation.

That's business with .NET.

When an enterprise is truly connected, the physical barriers to doing business are eliminated, leaving just one degree of separation. .NET connected software from Microsoft lets you use your existing infrastructure to link virtually any system with any other system — UNIX with Windows®, for example. And because .NET is the most comprehensive way to build and manage XML Web services—the innovative new vehicle for information exchange—it provides the quickest way to build connections that are flexible and designed to stay that way. The power of the agile business comes from connections. That's the power of .NET connected software from Microsoft.

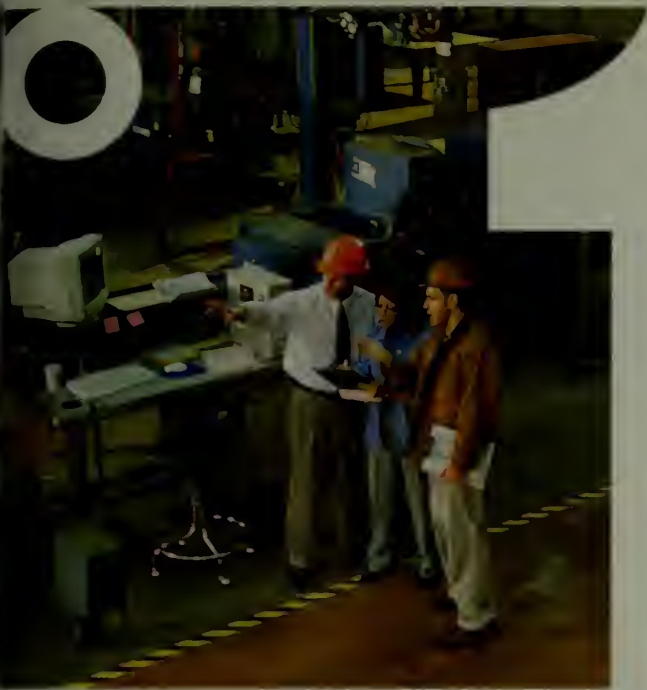


1° of separation between you and your customers. .NET connected software breaks down barriers between you and your customers by connecting you with all your customer touch-points via the Web. You are suddenly able to deliver for customers when and where they need you, on virtually any device—and as a result, you can capitalize on new revenue opportunities online.

▶ **Trans World Entertainment Corporation's** FYE brand is a leader in music and video retailing. FYE uses .NET connected software to deliver a personalized entertainment experience at every customer touch-point in their 700 stores and online at fye.com.

"Enterprises will find that Web services offer a more cost-effective way to perform agilely on the Supranet and in the other environments."

—Gartner, "How Web Services Mean Business,"
W. Andrews, D. Smith, D. Plummer, May 2001



1° of separation between you and your partners. By allowing companies to communicate and share data over the Internet regardless of whose technology they use, .NET connected software connects buyers and suppliers in new and innovative ways—so you can get products to market faster. .NET enables you to add or switch business partners at the rapid pace of business—without technology being a barrier.

Dollar Rent A Car wanted to let customers make reservations through a major airline partner's Web site. Using .NET connected software, they linked two different systems on two different platforms, which enabled both partners to better connect with each other and their customers. And they got it all done in weeks rather than months.

1° of separation between you and your employees. .NET connected software enables a flow of rich information among people and across departments, because it allows systems on any platform to work seamlessly together. That means information gets to the right people at the right time, so your employees can make better decisions, be more productive, and ultimately deliver better results.

Pfizer used .NET connected software to connect the myriad of disparate systems at their manufacturing site. Once these connections were made, they were able to get real-time information across the company, aggregate it in useful ways, and ultimately make smarter decisions.

"Web services do represent a fundamental shift in the way companies build and use software. They can make it easier to link complex business systems, saving your company time and money and, in turn, letting it respond more flexibly to business demands." —Darwin, January 2002

1° of separation between today and tomorrow. With .NET, Microsoft is bringing to market the most comprehensive vision and software platform for building, deploying, managing, and using XML Web services. An investment in .NET ensures your ability to compete and win in a world in which information, people, systems, and devices are more closely connected.

And you can count on Microsoft to lead the way over the long term, because Microsoft will invest more than \$5 billion in research and development this year alone. A top priority of our research is the development of business-critical software, including the .NET platform and the industry standards it supports.



The tools you'll use to make it all happen. XML Web services based on .NET connected software are where the business world is headed. To help make them a reality in your company, Microsoft offers a broad range of enterprise-class business software:

- ▶ The Windows 2000 Server Family—the rock-solid application platform that delivers the highest levels of reliability, scalability, and manageability.
- ▶ The Microsoft® .NET Enterprise Server Family—including enterprise-class e-commerce servers, messaging servers, database servers, and application integration servers.
- ▶ Microsoft Visual Studio® .NET—the first development tool designed from the ground up to build XML Web services and applications.

The resources and partnerships that will help you make the most of this opportunity. With Microsoft, you have access to the best of the best.

- ▶ Microsoft has alliances with the largest services organizations in the world—Accenture, Avanade, Cap Gemini Ernst & Young, Compaq Global Services, Dell, EDS, KPMG Consulting, Unisys, and more—to provide Fortune 1000 companies with complete enterprise-class solutions.
- ▶ Microsoft Certified Partners, with over 34,000 organizations and 1 million experts certified by Microsoft, can help design, build, deploy, and maintain Microsoft-based solutions for businesses of any size.
- ▶ Microsoft Services for the Enterprise offers Microsoft experience and skill through every stage of the technology planning, deployment, and support processes.

1° of separation between you and us. Find detailed case studies about the companies who are revolutionizing their businesses with .NET connected software, and information about the tools and resources that are available to help your business achieve even greater levels of agility.

To learn more, visit microsoft.com/enterprise **Software for the Agile Business.**

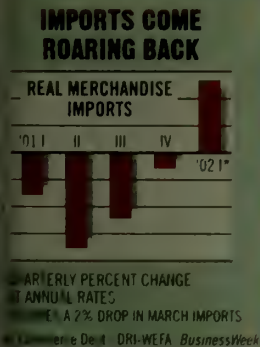
Microsoft®

JAMES C. COOPER & KATHLEEN MADIGAN

DEBT OVERSEAS STIRS UP TROUBLE AT HOME

The growing current-account deficit might set the U.S. up for a fall

U.S. ECONOMY The world economies are finally mounting a recovery from last year's slump. Even the latest word on Japan is a bit more upbeat. The reason, of course, is the upturn in the U.S. economy. The U.S. led the world into a downturn that hit different regions with varying impact, and it will be the locomotive for the recovery. But therein lies a problem. U.S. financial obligations to the rest of the world are once again on the rise as America grows ever more dependent on foreign capital to finance its growth. Back in March, Federal Reserve Chairman Alan Greenspan noted that over the past 10 years, about 40% of the increase in the U.S. capital stock was financed by foreign investment, a pattern that will require an ever-larger flow of interest payments going out to foreigners. "Countries that have gone down this path invariably have run into trouble," said Greenspan, "and so would we."



The most important result of this shift is the softening of the debtor nation's currency. For the U.S., a weaker dollar won't be a problem if the adjustment occurs slowly and orderly. However, currency markets rarely move that way. And any sharp change in the dollar's value could wreak havoc in the financial markets as well as portend a higher level of inflation as the price of imports begins to rise. Consequently, the U.S.'s mounting external debt is clearly the most crucial structural problem facing the economy. And unlike other recent economic troubles, there may be no easy way out.

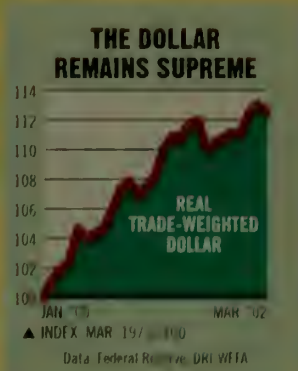
TYPICALLY, A RECESSION helps narrow the trade deficit. But last year's slump was anything but typical, and the U.S. external imbalance did not improve much. Now, renewed growth in U.S. demand, coupled with the potent buying power of the U.S. dollar, is drawing in imports by the boatload (chart), which once again

means the U.S. trade deficit is widening sharply. The January and February increase in imported goods was the largest two-month rise in two decades.

The trade gap is the main component of the current-account deficit, which is the broadest measure of U.S. financial obligations to other countries. After last year's respite, the external debt is starting to mount up anew. Last year's current-account gap hit 4.1% of gross domestic product, and it could reach 5% by the end of 2002. That would be the largest rate in the industrialized world and larger than in many emerging-market nations.

Finance ministers from the Group of Seven industrialized countries informally voiced concern about the U.S. current-account problem in Washington on Apr. 20 during the spring meeting of the International Monetary Fund and the World Bank. Europe, in particular, expressed worries that the imbalance could eventually put the dollar, financial markets, and U.S. and world growth at risk.

One solution would be a gradual weakening in the dollar. But stemming the dollar's rise has proved difficult. Even during the official recession months of 2001, the broad trade-weighted value of the dollar continued to rise (chart). And while last year's economic slump was much worse in the U.S. than in Europe, the dollar remains slightly stronger vs. the euro, compared with this time last year.



WHAT'S PROPPING UP THE DOLLAR? Foreigners still see U.S. assets as better investments than other opportunities around the world. Indeed, in one sense, the U.S. may have become a victim of its own success. Thanks to its high-tech overhaul of the 1990s, the U.S. economy can grow at a fast rate without stoking future inflation. That means big payoffs for stocks, bonds, and direct capital investment. The U.S. potential growth rate is higher than that of most other countries, particularly those in Europe. That has made the U.S. a magnet for foreign investment while also giving the Fed unprecedented maneuvering room to keep interest rates low in order to assure a strong recovery.

And make no mistake: The Fed is committed to es-

Business Outlook

establishing a hearty recovery. In his testimony before the Joint Economic Committee on Apr. 17, Greenspan made a surprisingly clear statement about the near-term direction of monetary policy. While acknowledging that the current level of Fed-controlled interest rates was too low to keep inflation in check over the long haul, he also said that with near-term inflation prospects so favorable, he still was not prepared to raise rates until a sustained, solid expansion was in view.

That comment sent Fed watchers scurrying to revise their timetables for when policymakers would move to raise rates back up to a level more consistent with a neutral policy that would neither spur nor retard economic growth. Given the first quarter's burst of growth, expectations had been increasing for a Fed hike in June. Now, most economists don't look for any rate action until August, at the earliest.

IN FACT, THE FED could well be the last major central bank to lift interest rates in this global recovery. In recent weeks, Sweden and Canada have already done so. Britain may be next, and the European Central Bank is already expressing unease that a recovery is emerging with both wages and prices growing too fast for comfort, with industrial operating rates not having fallen very much, and with policy now very stimulative.

But the Fed's policy timing also sets up a dilemma. The more the Fed does to assure a strong U.S. re-

covery, the more imports will soar, further widening the trade gap (chart). That will increase the U.S. need for foreign capital. Consider that out of every dollar the U.S. spends on goods, excluding oil, about 10 cents goes to imports. And since U.S. imports are a third greater than exports, exports have to grow a third faster than imports (a respective 12% vs 9%, for example) just to keep the trade deficit from deteriorating. With U.S. domestic demand showing every sign of picking up this year, imports will outpace exports. That divergence will cause a wider trade gap and the dollar at greater risk for a correction.

The day of reckoning may not fall within 2002 or even 2003. And its impact on financial markets and the dollar will depend greatly on the response of fiscal and monetary policymakers. The departure of Alan Greenspan from the Fed, whenever that might occur, could well be a critical time in this adjustment process, given the trust the world has placed in the Fed chief's adept management of the U.S. economy. Indeed, for all of Greenspan's hand-wringing over our external debt, the fallout could be the next Fed chairman's first big headache.

THE TRADE GAP BEGINS TO WIDEN AGAIN



WITHOUT CHIPS, THE ECONOMY IS TOUGHER TO READ

This is a case where the chips cannot fall where they may.

On Apr. 24, the Commerce Dept.'s Census Bureau released its closely watched report on durable-goods orders, but economists were surprised to find out the data no longer included semiconductors—and would not for the foreseeable future. The bureau explained that too many large chipmakers had refused to participate in the voluntary survey and, as a result, it could no longer produce reliable estimates of semiconductor activity.

Why have chipmakers turned off the info spigot? The problem has been brewing for a while, but Intel Corp. seems to have tipped the bal-

ance. Intel and others believe the bookings data do not accurately reflect the state of their businesses, partly because they don't account for cancellations and double ordering. "We decided that we'd stop

providing that information which we think is irrelevant and potentially misleading," says Intel spokesman Chuck Mulloy. William M. Jewell, Americas vice-chairman of World Semiconductor Trade Statistics, says companies opposed to reporting worry the very volatile data have the potential to negatively hit their stock prices.

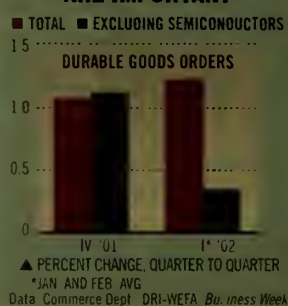
The Census Bureau says it is willing to work with chipmakers to make reporting easy and to persuade companies that it is in their

best interest to report the information. It's important that chipmakers change their mind. Although semiconductors account for only 3.4% of durable-goods orders last year, demand for semiconductors is seen as a leading indicator for where all technology industries are headed.

The lack of chip data also creates a greater risk of misreading the economy. Recent orders for durable goods, including business equipment, look much weaker when semiconductors are excluded (chart). A wrong signal on capital spending could mask the economy's true strength, leading to bad investment and policy decisions.

The bureau says there are many other industries where this problem is looming. But the absence of chipmakers' data leaves a hole in a crucial part of the New Economy.

WHY CHIP DATA ARE IMPORTANT



MULTITRONIC?



SUPERSONIC?



What if a transmission had no gears and every possible gear all at the same time? And what if it could be as fast as a manual, yet smoother and more fuel efficient than an automatic? It would be revolutionary. Which is why we created our multitronic™ CVT, the only continuously variable transmission able to handle high-torque engines. Available on A4 and A6 FrontTrak® front-wheel drive models, it is yet another example of our approach toward building cars.

Never quit. Never do the expected. Never rest on your laurels. Never think great is good enough. NEVER FOLLOW.™

NO QUICK CURE

Why the drug industry's down cycle won't be over soon

For much of the 1990s, the pharmaceutical industry seemed bulletproof. Drugmakers enjoyed a string of blockbuster product launches, from the cholesterol-lowering drug Lipitor and erectile enhancer Viagra to a new-fangled painkiller called Vioxx. Scientific breakthroughs—notably the revolution in genomics—held out the promise of even more novel medicines. And while economic cycles hammered other industries, investors found a safe haven in drugs through the late 1990s as the stocks posted heady gains.

These days, pharmaceutical companies look far from invincible. While the industry is fairly well insulated from the ups and downs of the overall economy, executives and investors alike have suddenly rediscovered that drugmaking is subject to a cycle dictated by the productivity of its research and development. With that cycle now heading into a trough, drugmakers face a nasty—and perhaps prolonged—downturn for two big reasons: Traditional methods of drug R&D are less productive than they used to be, and the payoff from the genomics revolution is taking longer than expected. And if that weren't bad enough, the industry is also confronting a wave of patent expirations, clearing the way for cheap generic knock-offs.

The resulting profit squeeze is likely to cause major industry turmoil. In the past, drugmakers could rely on price hikes or me-too drugs—essentially follow-up products to existing big sellers—to plug gaps. Now, those tactics don't work as well as they used to, in part because managed-care players are better at steering consumers to less expensive medicines. So drugmakers, to boost profits, are bound to explore more mergers and look increasingly to slash costs. But the former strategy has a dubious history, and the latter may be too tough a challenge for managers unaccustomed to lean times. Botched efforts could trigger turnover in executives' suites. "For a while, the industry could patch the time between cycles," says GlaxoSmithKline PLC CEO Jean-Pierre Garnier. "Now, the cyclical nature of the industry is more visible."

How far have the mighty fallen? Consider the basket of eight drugmakers—seven big U.S. companies, plus Britain's GlaxoSmithKline—that analyst Stephen M. Scala follows for SG Cowen Securities Corp. These players have racked up reliable double-digit earnings gains for the past five years. But this year, net income for the group will be up a meager 4.4%. And Raymond James & Associates Inc. analyst Michael Krensavage

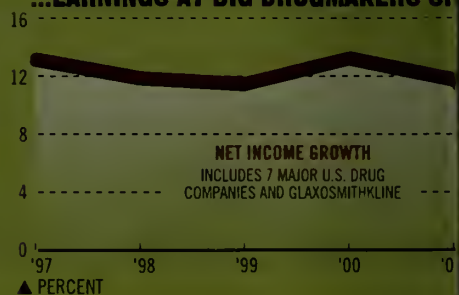
GOOD-BYE TO A SURE THING

AS U.S. DRUG SPENDING SLOWS...



Data: Centers for Medicare & Medicaid Services

...EARNINGS AT BIG DRUGMAKERS SP...



Data: SG Cowen



says the premium for U.S. drug stocks over the Standard & Poor's 500-stock index has dropped to a slim 5% based on projected 2002 earnings, down from the average premium of 14% since 1990. "They are no longer defensive stocks," says John Schroer, president of Denver-based health-care hedge fund Itros Capital Management. "Now, you're looking at them from a value perspective."

In essence, this fall from grace reflects a major productivity problem. While R&D spending for members of the Pharmaceutical Research & Manufacturers of America has more than tripled since 1990, ballooning from \$8.4 billion to \$30.3 billion last year, only 52 new drugs were approved by the Food & Drug Administration last year, vs. 64 back in 1990. That dip in productivity is a major problem now that drugs generating some \$30 billion in U.S. sales are expected to lose U.S. patent protection or other forms of exclusivity over the next four years. And with the Federal Trade Commission taking aggressive steps to end drug company tactics for delaying generics, the generic onslaught will be unstoppable. "The payoff from R&D is not coming in time to fill this hole," says C. Anthony Butler, a managing director at Lehman Brothers Inc.

The productivity headache reflects a major transition occurring in pharmaceutical labs around the globe. Traditional methods of drug discovery don't yield as many drugs as they used to. In part, scientists say, this is because good therapies already exist for conditions such as hypertension or high cholesterol—ailments that are relatively well-

lieve that big payoff is five or more years away. For one thing, even when a gene is identified as being linked to a disease, it isn't clear how to design a drug to stop the progression of that condition. Take early-onset Alzheimer's and the form of the disease that strikes later in life. Dr. Steven M. Paul, group vice-president in Eli Lilly & Co.'s research arm, points out that genes linked to both forms had been identified by the early 1990s. But scientists are still trying to unravel how the disease progresses—and what stage in that process they should try to block with a drug. "There was an unrealistic expectation by some that this would be a hundred-yard dash," says Lilly's Paul. "It has turned out to be more of a marathon."

With that payoff far away, many pharma giants have thrown their considerable weight behind me-too drugs in an effort to bolster sales. Some of this year's launches are akin to the movie business trotting out *Rocky IV*—though the compounds are technically "new" and somewhat improved. Schering-Plough Corp. has already rolled out Clarinex, an allergy pill derived from its aging blockbuster Claritin. Pharmacia Corp. has launched another Cox-2 drug, Bextra, to follow in the footsteps of its arthritis hit Celebrex. And new competitors to Pfizer Inc.'s Viagra and Lipitor should hit later this year.

Even if they are slightly more effective, such wares are no solution to the industry's woes. For one thing, many of these categories are getting crowded, triggering expensive marketing battles. And unless the new drug has a compelling edge over existing therapies, companies bring them in at a discount to rival products—though still well

Complex diseases have environmental, dietary, and genetic causes, making them tough to crack. "The low-hanging fruit have been picked," says an Abbott exec

AND DRUG STOCKS GO SIDWAYS

AMEX PHARMACEUTICAL INDEX

MAR '02

Data Bloomberg Financial Markets

understood. Now, scientists are going after increasingly complex diseases such as Alzheimer's, cancer, and diabetes, which have multiple causes and triggers that include genes, environmental assaults, and diet. "The low-hanging fruit have been picked," says Dr. Jeffrey M. Leiden, chief scientific officer.

The genomics revolution may eventually help tackle killers such as cancer. But most scientists be-

lieve that big payoff is five or more years away. For one thing, even when a gene is identified as being linked to a disease, it isn't clear how to design a drug to stop the progression of that condition. Take early-onset Alzheimer's and the form of the disease that strikes later in life. Dr. Steven M. Paul, group vice-president in Eli Lilly & Co.'s research arm, points out that genes linked to both forms had been identified by the early 1990s. But scientists are still trying to unravel how the disease progresses—and what stage in that process they should try to block with a drug. "There was an unrealistic expectation by some that this would be a hundred-yard dash," says Lilly's Paul. "It has turned out to be more of a marathon."

Compounding the pressure on prices,

managed care and pharmacy benefit managers are getting more effective at restricting the use of new drugs where cheaper alternatives exist. More employers are now utilizing three-tiered co-pay systems for drugs, for example. Under those programs, a generic may have a co-pay of only \$5, a preferred brand drug, usually with a moderate price, may have a co-pay of \$10, while a very pricey brand name may have a \$25 co-pay. As popular brands such as the antidepressant Prozac become available in cheap generic forms, three-tiered co-pay systems are steering more patients to these less expensive options. "Co-pays are near the point where patients are going to ask their doctor, 'Is there a generic I can use?'" says Robert Seidman, chief pharmacy officer at in-

surer WellPoint Health Networks Inc.

Admittedly, drugmakers still have pricing power. In fact, as they face slowing growth, they are increasingly pushing hefty price increases on products when they have major market advantages. Pfizer, for example, was able to raise the price of the most commonly prescribed dose of Lipitor about 9% earlier this year, in part because the drug has been shown to be a more powerful cholesterol-lowering agent than competing medicines.

Still, the combination of reduced pricing flexibility and weak pipelines for new products is sending drugmakers scrambling to boost their bottom lines. Pradip K. Banerjee, partner in charge of the R&D practice at Accenture Ltd., figures many companies will slash over-

head, look for savings in purchasing manufacturing operations, and scale back marketing expenses. In fact, Merck & Co., which is projecting flat earnings this year as patents expire on big drugs, began a cost-cutting drive a year and a half ago that helped bring marketing and administrative costs down 3% in the first quarter, to \$1.5 billion. Some observers warn that today's generation of drug CEOs aren't accustomed to intense cost pressure. The result may be turmoil among management ranks in coming years. "We don't have people with experience in running a tight ship," says Barrie G. James, president of Britain's Pharma Strategy Consultants. Research and development will come under scrutiny. The torrid growth in research spending is likely to

HOW DRUG NEWS LEAKS TO INVESTORS

Genentech Inc. was riding high on Wednesday, Apr. 10. The biotech company had just reported strong first-quarter sales, and its stock rose 5% in response. Some investment analysts raised their ratings because of the company's promising experimental drugs, and its scientists were readying presentations for an all-important meeting of the American Society of Clinical Oncology (ASCO) in May.

On Thursday the 11th, Genentech's world became a much colder place after an abstract of one of its planned presentations was posted to ASCO's Web site. These summaries are embargoed until the meeting, set for Orlando on May 18-21. Until then, the public can't read them. They're offered only to ASCO's 18,000 members, who must be oncologists or cancer researchers, so that they can plan which sessions to attend. Yet when word quickly leaked out that an abstract indicated possible safety problems with Genentech's Avastin—currently in late-stage clinical trials—the stock fell more than 12%, to \$37.75.

By Friday, Bank of America had issued a research report, based on the abstract, that lowered its price target for Genentech's stock to \$45 from \$53. "What happened to Genentech was just awful," says Lehman Brothers Inc. analyst Joseph Dougherty. "Genentech's in-

vestors lost almost \$3 billion on the selective, slow trickle of data."

Other biotech companies were also caught in the trickle. Shares of Millennium Pharmaceuticals Inc. rose 9% that Thursday and Friday, to \$22.17, on good reviews of an abstract on MLN341, the company's drug for multiple myeloma. Cell Therapeutics Inc. watched its stock sink 23% in a week because an abstract raised concerns that its experimental drug PG-TXL may not work as well as had been expected. Even beleaguered ImClone Systems Inc., whose stock has been in the doghouse ever since the

SUSPICIOUS MOVES

Data: Bloomberg Financial Markets

After privileged medical reports were posted on the Web, investors traded the biotech stocks that were mentioned

Food & Drug Administration rejected its approval application for Erbitux in December, got a temporary boost on Apr. 11 thanks to positive reaction to an abstract about the drug's performance against head and neck cancer.

This is the dark side of one of medical science's largest and most prestigious meetings. Although not technically illegal, every year something closely akin to insider trading roils biotech and pharmaceutical stocks for weeks before ASCO's conference. Over 3,000 summaries of cut-



RASH OF SYMPTOMS

Long viewed by investors as a shelter from economic storms, the drug sector is suddenly exposed on all fronts

OLD SLOWDOWN While the output from traditional drug discovery efforts has lagged, the payoff from new genomics-based technologies is taking longer than expected

PRICING PRESSURE Political heat, plus pressure from managed-care companies and other big payers, will make it more difficult for drug companies to hike prices

ME-TOO COMPETITION Copycat drugs appear on the market faster than ever, forcing drugmakers to increase marketing outlays in order to defend their big franchises

GENERIC HEADACHES Over the next four years, drugs with a combined \$30 billion in U.S. sales will lose patent protection or other forms of exclusivity, hurting revenues

in a compound annual growth rate of 13% from 1990 to 2000 to 7% over the next five years, according to SGW. GlaxoSmithKline's Garnier says his company will make sure its investment goes toward hiring scientists and researchers, not adding infrastructure and support staff. "R&D had been a sacred cow," he says. "No longer." Mergers, despite their weak track

record in the industry, are also likely to increase. After all, they represent the easiest way to generate big cost savings. But the disruption and distraction of such deals could hurt new-drug output. In 1997, Pharma Strategy Consulting's James took a look at the companies formed by big mergers and found that almost all of them lost market share in the years following the deal. "This in-

dustry relies on creativity and speed," says Tom McKillop, chief executive of AstraZeneca PLC. "And those are not qualities you normally associate with very large companies." If drugmakers aren't careful, they may find the prescription they've selected to address their R&D ills could have dangerous side effects.

By Amy Barrett in Philadelphia, with Michael Arndt in Chicago

ting-edge cancer treatments are made available to attendees a month before the meeting, but the reports are barred from the general public. Those abstracts, each only a few paragraphs long, are submitted in December, and ASCO wants news of their contents held until the actual presentations, which are more detailed and often contain updated data.

Because of this embargo, companies are not allowed to comment on abstracts before the meeting and reporters are not allowed to write about them. There is no apparent legal restriction, however, that stops doctors from trading on the reports or passing them on to analysts and friends.

As a nonprofit, ASCO is not subject to the Securities & Exchange Commission's full-disclosure rules about insider information. But its annual meeting, attended by more than 20,000 cancer specialists,

cause some 6% to 8% of the abstracts were mistakenly posted to the Web site on Apr. 11, four days before they were supposed to be disseminated.

ASCO is not the only science organization wrestling with the disclosure issue. Medical journals routinely mail out copies before the embargo on publicizing data is lifted, and inevitably there is some advance trading. But *The New England Journal of Medicine*, for one, stands by the practice. "Medical data can be very complex and difficult to interpret," says Editor Jeffrey M. Drazen. The journal wants to give doctors and reporters time to understand its significance before telling the public.

Some people on the business side of biotech feel ASCO should simply release the abstracts to everyone at the same time, to avoid giving anyone an edge in the market. But ASCO's chief execu-

GENENTECH

POSTED: APR. 11

REACTION:
APR. 11 **-12%**

MILLENNIUM

POSTED: APR. 11

REACTION:
APR. 12 **+6.3%**

CELL THERAPEUTICS

POSTED: APR. 15

REACTION:
APR. 17 **-11%**

isn't just about science—it's about a very big business. Billions of investment dollars are riding on the outcome of many of the clinical trials discussed, and investors are just as interested in those abstracts as doctors.

This year, the society required members to click on a confidentiality agreement before they accessed the research. But as one Wall Street trader comments, "just try telling 18,000 people to keep a secret." Companies presenting at ASCO were particularly caught off guard be-

tive, Dr. Charles M. Balch, points out that the society's duty is to the medical community, not the investment community. ASCO restricts the data so that doctors—and the press—can gain a fuller understanding of its significance by questioning presenters and hearing from experts at the meeting. "Our overriding concern is with patient safety," says Balch. A noble goal, though cold comfort to those investors without an oncologist for a friend.

By Catherine Arnst in New York

FLASH PROFITS

STILL WAITING FOR THE REBOUND

A first look at the quarter's feeble earnings and dismal sales

Anyone thinking this was the quarter when Corporate America would shake off its slump is about to be sorely disappointed. Even with consumer-product and health-care companies boosting sales by upping prices, overall revenues tumbled. For the 122 companies in *BusinessWeek's* flash profit survey, sales fell 6% from a year earlier. While preliminary, that's even worse than the 4% decline during the fourth quarter of 2001—itself an unprecedented drop.

Chalk it up to weak demand in a slow economy. Indeed, in the 30 years that *BusinessWeek* has tracked quarterly revenues, this is the biggest falloff ever. If the pattern holds as more companies report, it would be only the second time that sales have fallen two quarters in a row.

What about profits? They actually rose 6%, in part because of aggressive cost-cutting and improved efficiencies. One of the biggest profit winners, Citigroup, boosted earnings by 37%, thanks to reduced spending and the lift low interest rates gave to margins in its consumer-lending arm. But profits also got a hand from the winding down of the practice of goodwill amortization, through which companies regularly reduce earnings to reflect the cost of past acquisition premiums. An accounting rule change leaves the amortization expense in last year's results, giving a head start to this year's profits.

Another accounting shift also forced some companies, like AOL Time Warner Inc., to reduce net income through huge onetime charges on assets whose values have fallen sharply. But such

post-tax accounting charges are not included in the flash profits-table.

With the stock market limping along and merger activity moribund, investment houses like Morgan Stanley Dean Witter, Goldman Sachs, and Merrill Lynch all saw earnings plunge by more than 20%. High-tech companies posted an 11% profits drop as businesses held off on tech spending. And the post-September 11 falloff in business travel continued to hurt: AMR, UAL, Delta Air Lines, Continental Airlines, and Southwest Airlines all saw double-digit sales declines. Only Southwest eked out a profit.

Some companies, though, turned in a strong performance. With its sales leaping 18%, to \$4.19 billion, Abbott Laboratories is one of the few drug companies to maintain profit and revenue growth. It had net income of

\$854.3 million, up from a net loss of \$223.6 million a year earlier. Rising health-care costs gave hospital operator Tenet Healthcare Corp. a 45% jump in earnings. And Citigroup wasn't the only financial-services firm riding interest-rate cuts to a tidy profit. Capital One Financial Corp. and FleetBoston Financial Corp. both saw big gains, too.

Still, it will take more than a few strong performers to lift corporate profits out of their rut. "We'll see another drop in corporate earnings in the second quarter," says RBC Dain Rauscher's managing director, Vincent Boberski. When will the gloom lift? Not until demand picks up and business investment rises. Keep your fingers crossed for the second half.

By Darnell Little in Chicago, with Michael Arndt in Chicago and David Henry in New York



CURRENT QTR.
(MILLION)

INDUSTRIALS 358,204

ABBOTT LABORATORIES	4,189
AK STEEL HOLDING	1,010
ALCOA	4,983
AMERADA HESS	3,021
ARCHER DANIELS MIDLAND ††	5,326

ASHLAND †	1,616
BAXTER INTERNATIONAL	1,950
BOEING	13,821
CATERPILLAR	4,409
COCA-COLA	4,079

COCA-COLA ENTERPRISES	3,642
COLGATE-PALMOLIVE	2,195
CONAGRA FOODS ††	6,244
CROWN CORK & SEAL	1,567
DELPHI AUTOMOTIVE SYSTEMS	6,688

DUPONT	6,142
EXXON MOBIL	38,740
FORD MOTOR	39,857
GENERAL ELECTRIC	30,466
GENERAL MOTORS	46,264

GEORGIA-PACIFIC	5,796
GILLETTE	1,732
HONEYWELL INTERNATIONAL	5,199
ILLINOIS TOOL WORKS	2,204
INGERSOLL-RAND	2,305

INTERNATIONAL PAPER	6,038
JOHNSON & JOHNSON	8,743
KRAFT FOODS	7,147
LILLY (ELI)	2,561
LOCKHEED MARTIN	5,966

MARATHON OIL	6,409
MAYTAG	1,177
MERCK	12,169
NIKE ††	2,260
NORTHROP GRUMMAN	4,086

NUCOR	1,028
PEPSI BOTTLING GROUP	1,772
PEPSICO	5,101
PFIZER	8,418
PHILIP MORRIS	15,960

PRAXAIR	1,232
R.J. REYNOLDS TOBACCO HLDGS.	1,515
SCHERING-PLOUGH	2,556
SCHLUMBERGER	3,309
3M	3,890

UNITED TECHNOLOGIES	6,374
VISTEON	4,469
WHIRLPOOL	2,574

SERVICES 185,690

ALLSTATE	7,298
AMERICAN EXPRESS	5,759
AMR	4,136
BANK OF AMERICA	NA
BANK ONE	NA

BEST BUY †††	6,980
CAPITAL ONE FINANCIAL	2,133
CARDINAL HEALTH ††	13,242
CENDANT	2,713
CITIGROUP	25,894

CNF	1,067
CONTINENTAL AIRLINES	1,993
COSTCO WHOLESALE †	9,382
CSX	1,964
DELTA AIR LINES	3,103

% CHG.	EST. EPS (2/14)	REPORTED EPS	DIFF.		CURRENT QTR. SALES (MILLIONS)	% CHG.	QTR. PROFITS (MILLIONS)	% CHG.	EST. EPS (2/14)	REPORTED EPS	DIFF.
-5	0.44	0.41	-0.03	DOW JONES	392.9	-15	129.8	NM	0.07	1.53	+1.46
NM	0.54	0.54	—	FEDEX ††	5,019.0	+4	120.0	+11	0.36	0.39	+0.03
NM	-0.10	-0.24	-0.14	FLEETBOSTON FINANCIAL	NA	NA	735.0	+418	0.71	0.70	-0.01
-54	0.24	0.22	-0.02	GANNETT	1,524.6	-3	243.6	+40	0.89	0.91	+0.02
-58	0.96	1.58	+0.62	GOLDMAN SACHS GROUP	5,700.0	-40	524.0	-32	1.00	0.98	-0.02
+26	0.20	0.18	-0.02	HCA	4,873.0	+8	385.0	+18	0.72	0.74	+0.02
NM	0.29	-0.31	-0.60	HOUSEHOLD INTERNATIONAL	3,710.4	+8	511.0	+18	1.04	1.09	+0.05
+18	0.41	0.41	—	J.P. MORGAN CHASE	NA	NA	982.0	-18	0.60	0.48	-0.12
-53	0.84	0.72	-0.12	MANPOWER	2,284.0	-14	6.9	-74	0.08	0.09	+0.01
-51	0.27	0.23	-0.04	MARRIOTT INTERNATIONAL	2,364.0	-4	82.0	-32	0.27	0.32	+0.05
-8	0.39	0.32	-0.07	MBNA	NA	NA	369.9	+19	0.43	0.42	-0.01
7	-0.01	0.02	+0.03	McDONALD'S	3,597.4	+2	351.7	-7	0.31	0.27	-0.04
+8	0.49	0.49	—	McGRAW-HILL	846.7	0	29.2	+43	0.14	0.15	+0.01
+47	0.30	0.31	+0.01	MERRILL LYNCH	7,563.0	-37	647.0	-26	0.68	0.67	-0.01
NM	-0.09	-0.43	-0.34	MORGAN STANLEY DEAN WITTER	8,540.0	-33	848.0	-21	0.73	0.76	+0.03
NM	0.20	-0.09	-0.29	NEW YORK TIMES	737.1	-5	54.5	-9	0.36	0.35	-0.01
-1	0.45	0.48	+0.03	OFFICE DEPOT	3,040.6	+1	102.7	+82	0.31	0.32	+0.01
-58	0.40	0.30	-0.10	PROGRESSIVE	2,065.6	+17	176.2	+103	0.59	0.78	+0.19
NM	-0.14	-0.05	+0.09	SAFEWAY	7,932.3	+3	332.1	+17	0.66	0.67	+0.01
+17	0.34	0.35	+0.01	SCHWAB (CHARLES)	1,153.0	-25	94.0	-3	0.10	0.07	-0.03
-4	0.86	0.57	-0.29	SEARS, ROEBUCK	9,037.0	+2	318.0	+81	0.60	0.98	+0.38
NM	0.21	0.26	+0.05	SOUTHWEST AIRLINES	1,257.2	-12	21.4	-82	0.06	0.03	-0.03
+23	0.18	0.21	+0.03	TENET HEALTHCARE ††	3,484.0	+15	288.0	+45	0.81	0.86	+0.05
+817	0.45	0.46	+0.01	U.S. BANCORP	NA	NA	793.2	+93	0.44	0.41	-0.03
+7	0.60	0.63	+0.03	UAL	3,288.0	-26	-510.0	NM	-10.51	-9.22	+1.29
+64	0.55	0.48	-0.07	UNITED PARCEL SERVICE	7,579.0	+2	563.0	-3	0.46	0.50	+0.04
+261	0.06	0.13	+0.07	UNITEDHEALTH GROUP	6,013.0	+6	295.0	+39	0.85	0.92	+0.07
+18	0.58	0.59	+0.01	WASHINGTON MUTUAL	NA	NA	904.0	+41	0.98	0.93	-0.05
+113	0.44	0.40	-0.04	WELLS FARGO	NA	NA	1,379.0	+18	0.79	0.80	+0.01
-22	0.58	0.58	—	TECHNOLOGY	92,221.9	-7	5,123.1	-17	0.22	0.13	-0.09
+78	0.47	0.50	+0.03	AOL TIME WARNER	9,764.0	+7	-1.0	NM	0.16	0.03	-0.13
-89	0.29	0.17	-0.12	APPLE COMPUTER †	1,495.0	+4	40.0	-7	0.11	0.11	—
-26	0.48	0.75	+0.27	COMPAQ COMPUTER	7,728.0	-16	44.0	-52	0.01	0.03	+0.02
-2	0.71	0.71	—	ELECTRONIC DATA SYSTEMS	5,341.0	+7	354.0	-25	0.72	0.72	—
+30	0.46	0.46	—	EMC	1,302.0	-44	-76.9	NM	-0.03	-0.03	—
+45	1.33	1.27	-0.06	GATEWAY	992.2	-51	-123.2	NM	-0.08	-0.39	-0.31
-38	0.21	0.26	+0.05	IBM	18,551.0	-12	1,192.0	-32	0.85	0.68	-0.17
+108	0.18	0.19	+0.01	INTEL	6,781.0	+2	936.0	+93	0.14	0.14	—
+14	0.37	0.36	-0.01	LEXMARK INTERNATIONAL	1,050.1	+6	71.5	-10	0.48	0.53	+0.05
+23	0.39	0.37	-0.02	MICROSOFT ††	7,245.0	+13	2,738.0	+12	0.51	0.49	-0.02
+32	1.12	1.09	-0.03	MOTOROLA	6,023.0	-22	-449.0	NM	-0.12	-0.20	-0.08
+1	0.74	0.77	+0.03	ORACLE ††	2,229.3	-17	508.0	-13	0.10	0.09	-0.01
+67	1.77	1.79	+0.02	SANMINA-SCI †	2,411.2	+102	-39.3	NM	0.00	-0.08	-0.08
+6	0.42	0.41	-0.01	SUN MICROSYSTEMS ††	3,107.0	-24	-37.0	NM	-0.02	-0.01	+0.01
-27	0.40	0.30	-0.10	TEXAS INSTRUMENTS	1,827.0	-28	-38.0	NM	-0.01	-0.02	-0.01
0	1.11	1.14	+0.03	UTILITIES & TELECOM	71,225.1	-12	3,047.0	NM	0.19	0.15	-0.04
+6	0.90	0.92	+0.02	AMERICAN ELECTRICAL POWER	13,500.0	-5	181.4	-32	0.77	0.56	-0.21
NM	-0.02	-0.57	-0.55	AT&T	12,023.0	-11	-160.0	NM	0.03	-0.17	-0.20
+155	1.23	1.21	-0.02	AT&T WIRELESS SERVICES	3,611.0	+12	-16.0	NM	0.00	-0.01	-0.01
+13	0.58	0.61	+0.03	BELLSOUTH	5,697.0	-4	1,155.0	+30	0.58	0.61	+0.03
-16	0.56	0.60	+0.04	CONSOLIDATED EDISON	2,099.1	-27	170.0	-7	0.88	0.78	-0.10
+15	0.42	0.46	+0.04	DOMINION RESOURCES	2,634.0	-18	322.0	+99	1.34	1.20	-0.14
NM	-2.94	-3.71	-0.77	DUKE ENERGY	11,885.0	-28	382.0	-31	0.69	0.48	-0.21
+17	1.34	1.38	+0.04	LUCENT TECHNOLOGIES †	3,516.0	-40	-595.0	NM	-0.14	-0.19	-0.05
+16	0.66	0.67	+0.01	NEXTEL COMMUNICATIONS	2,155.0	+24	-591.0	NM	-0.45	-0.82	-0.37
+84	1.38	1.62	+0.24	PUBLIC SERVICE ENT. GRP.	2,515.0	-11	180.0	-29	1.25	0.87	-0.38
+31	0.81	0.83	+0.02	SBC COMMUNICATIONS	10,522.0	-6	1,710.0	-8	0.52	0.51	-0.01
+56	0.70	0.66	-0.04	SOUTHERN	2,214.0	-2	228.0	+23	0.32	0.32	—
+23	0.30	0.34	+0.04	SPRINT FON GROUP	4,029.0	-8	286.0	-9	0.31	0.32	+0.01
+37	0.80	0.93	+0.13	SPRINT PCS GROUP	2,848.0	+41	-146.0	NM	-0.20	-0.15	+0.05
+30	0.10	0.35	+0.25	VERIZON COMMUNICATIONS	16,375.0	+1	4.0	NM	0.74	0.00	-0.74
NM	-2.13	-2.61	-0.48								
+9	0.41	0.41	—								
+240	0.32	0.32	—								
NM	-2.64	-3.25	-0.61								

† = Second-quarter results
NM = not meaningful

†† = Third-quarter results
NA = not available

††† = Fourth-quarter results
*EPS adjusted for special items

Data: Standard & Poor's COMPUSTAT earnings estimate data provided by Thomson Financial/First Call



RETAIL

WILLIAMS-SONOMA TRIES A NEW RECIPE

Pottery Barn Kids is a hit, but a lower-rent brand poses risks

Until last spring, when she was expecting twins, Ellen La Fronz hadn't bought anything from Pottery Barn for years. But when the 35-year-old Manhattanite set out to furnish the nursery, she dropped \$1,200 in one day at Pottery Barn Kids for a diaper-changing table, a lamp, a chenille rug, and other items. "I went all out," says La Fronz, who figures she'll head back there when the twins outgrow their cribs. "The items for toddlers are adorable," she says.

That's just what Williams-Sonoma Inc. CEO Dale W. Hilpert wants to hear. The San Francisco-based specialty retailer—parent to the Pottery Barn chains as well as its namesake cookware stores—doesn't want to be known just for its \$280 Dualit toasters and \$1,000 sofas anymore. Though the two chains are doing well, they are relatively mature brands. To keep consumers in the fold, Hilpert is pushing aggressively into new retail sectors like the kids market. And on Apr. 23, Hilpert made another big bet: Williams-Sonoma launched West Elm, a furniture catalog a few notches down in price and quality from Pottery Barn.

It's a risky strategy, of course. Hilpert could just end up cannibalizing his core brands. But so far, it seems to be working: While many retailers are struggling, Williams-Sonoma's strategic expansion and keen eye for design, combined with consumers' renewed interest in nesting, have made it one of the strongest retailers around. Hilpert, who joined the company from footwear retailer Foot Locker Inc. a year ago, has also shaped up operations behind the scenes. The result: On Apr. 17, the company raised its 2002 earnings projection by 11%, citing better-than-expected full-price sales and margins. Analysts now expect Williams-Sonoma to post earnings of \$106 million in 2002, an increase of 39.2%, on a sales gain of about 14.5%. Happy investors have sent its stock up 130% since Jan. 2001, compared with 44% for the S&P Specialty Retail Index and 6% for the S&P 400 MidCap Index.

To fuel growth, Pottery Barn Kids, which sells goods ranging from \$40 butterfly-shaped lamps to

NESTING INSTINCTS ARE UP

The Kids stores are expected to cultivate future consumers, too

\$799 maple cribs, is behind much of the enthusiasm. In 2001, sales at stores open at least a year rose 10% compared with a gain of 2% for the entire company. This year, Williams-Sonoma plans to almost double the three-year-old Kids chain, to 52 stores, accounting for about half of its expansion. "Given Pottery Barn's strong brand, it's well able to capture more market share with the new stores," says Kristine Koerber, an analyst at W.R. Hambrecht & Co.

West Elm, though, is a distant prospect. For starters, launching a new brand is expensive: Although Williams-Sonoma won't disclose catalog-circulation plans or how much it has spent to develop West Elm, retail experts say it will require a big marketing and budget right from the start.

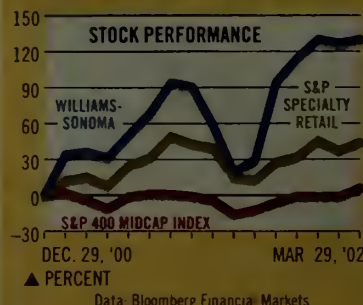
A bigger problem could come if West Elm cuts into Pottery Barn's niche. Although Hilpert declined to comment, company executives in the past have said West Elm will be to Pottery Barn what Old Navy is to Gap—a side chain selling lower-priced knockoffs. Old Navy, launched in 1993, posted huge sales gains for years—but it was partly because it stole customers from Gap. Ultimately, Old Navy contributed to the woes of the entire company as its image blurred with Gap and combined sales slowed. A Williams-Sonoma spokeswoman says that "look, feel, and price points of West Elm will be different" from Pottery Barn. And, she says, to encourage their independence, the designers will work out of New York.

But West Elm could dent Pottery Barn if consumers think they can find similar products there for less. And because most shoppers will likely figure out that the two chains are related,

"the risk ultimately of tarnishing Pottery Barn's image," says Cheryl Swanson, principal at New York brand consultant Toniq LLC. Perhaps Hilpert should have asked Gap Inc.'s Richard S. Drexler how he really feels about Old Navy these days.

By Louise
in San Francisco, Calif.

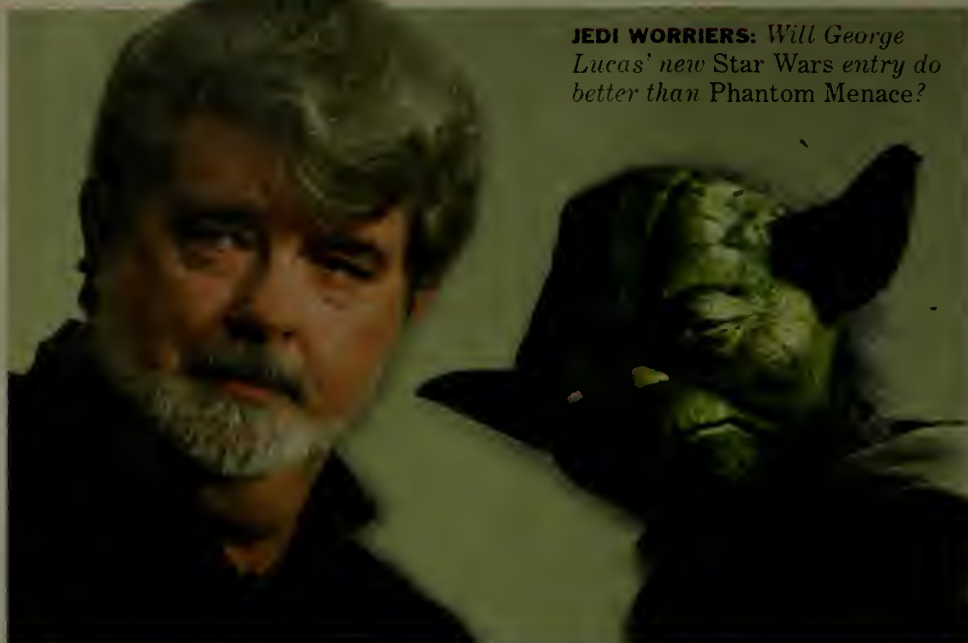
WEARING HOUSEWARES WELL





Think

of a large
oil company
in the northern
Caspian.



JEDI WORRIERS: Will George Lucas' new Star Wars entry do better than *Phantom Menace*?

MOVIES

THE EMPEROR STRIKES BACK

How Lucas is maximizing the take on *Attack of the Clones*

Star Wars producer Rick McCallum still bristles at the memory of his 1999 trip to Hong Kong. Just days after George Lucas' blockbuster *Star Wars: Episode I—The Phantom Menace* was released in the U.S., street vendors were hawking bootleg videos—weeks before the flick was due to hit Asian theaters. This time around, the

Empire intends to strike first. In a bold attempt to thwart pirates, Lucas' much-anticipated *Star Wars: Episode II—Attack of the Clones* is being released in the U.S. and much of the rest of the world on May 16—the largest single rollout in Hollywood history. "We're not going to be ripped off this time," vows McCallum.

Jedi warriors have nothing on Lucas when it comes to protecting his Star Wars franchise. When *Phantom Menace* was nearing release, Lucas' team sued one book publisher for copyright infringement, then forced Internet sites to take down unauthorized pictures. This time around, Lucas is pushing as hard. To scoop unauthorized Internet sites, Lucas has created his own "underground" site, filled with fake news articles and features on the characters. A new company was hired to run the *Star Wars* fan club. And to show films, theater owners are again liable to pay high fees while agreeing to Lucas' strict terms for the kind of audience in which they can play the flick.

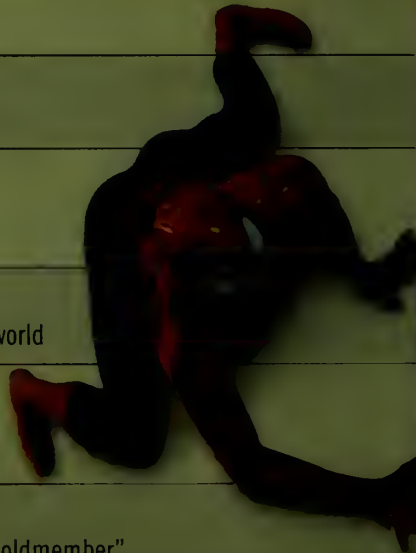
In a town known for maniac hands-on executives, Lucas might be setting new Hollywood standards. "He is a control freak, but if you want the film—and everyone does—you do what he asks," says Paul Dergarabedian, president of box-office tracking firm Exhibitor Relations Co. Indeed, the first four *Star Wars* movies generated more than \$3 billion in total revenues. *Phantom Menace*, even with an otherwise worldly \$431 million at the U.S. box office, showed subtle signs of loss of power. Merchandised sales were disappointing. Ticket sales were 43% behind the 1977 original. There's no telling how much counterfeiters cut into sales, but overall, Hollywood estimates it loses \$1 billion a year to piracy.

Lucas, who spent \$140 million of his own money to make *Attack of the Clones*, controls most of the action on the project. Although Twentieth Century Fox Film Corp. is releasing the film, Lucas gets an estimated 40%

ACTION HEATS UP HOLLYWOOD'S SUMMER

The box office is projected to be up as much as 15% this summer over last year, to \$3.5 billion, largely on the draw of big action movies. Here's what should be packing theaters:

FLICK	STUDIO	BUDGET MILLIONS	RELEASE DATE
SPIDER-MAN ► It took two decades to spin out this wall-crawling blockbuster	Sony	\$139	May 3
STAR WARS: EPISODE II —ATTACK OF THE CLONES George Lucas, Jedis, light sabers, and a love story, too	20th Century Fox	140	May 16
SCOOBY-DOO A computer-generated Scooby and live-action Shaggy save the world	Warner Bros.	97	June 14
◀ MINORITY REPORT This Steven Spielberg tale has Tom Cruise as a futuristic cop solving murders before they happen	20th Century Fox	80	June 21
AUSTIN POWERS 3 Mike Myers takes on Dr. Evil and Mini-Me again, allied with "Goldmember"	New Line Cinema	63	July 26





Discover Eni.

Great flair
for great
results.

asure lies in the northern
plan, off the coast of Kazakhstan.
has been entrusted with the
of developing one of the
est oil fields discovered in
ast thirty years. It's the result
e international experience,

technical knowledge and differences
in approach that are a part of our
genetic heritage, along with
a special ability to adapt to
different situations and cultures.
Today Eni is a large, international,
independent oil and natural gas

company that can count on three
core businesses – Exploration &
Production, Gas & Power and
Refining & Marketing – and on
a fundamentally unique vision:
our own, slightly different, Italian
way of seeing and doing things.



Eni's way

TRENDS

BOTOX: NOW IT'S A GUY THING

Men are the fastest-growing market for anti-wrinkle shots

Todd White is determined to give Father Time a run for his money. White works out twice a day, eats organic food, and keeps his body fat low. "People think I'm in my early 30s," says White, a 41-year-old real estate developer in Napa, Calif.

Then there's the twice-yearly Botox injections jabbed into White's forehead. Derived from the same toxin that causes botulism, Botox works its magic by paralyzing some facial muscles, smoothing a furrowed brow here or a crinkly squint there. A few days after a treatment, White's brow wrinkles vanish. Although his treatments have cost \$500 to \$775 apiece, he has gone back 10 times. Says White: "It's like a baby's [bottom] on my forehead."

White has plenty of guy company. Sure, women of "a certain age" have made Botox a huge hit since doctors first began using the procedure to eliminate wrinkles in the early 1990s. But now, middle-aged men make up the fastest-growing market of Botox users. Of the roughly 1.5 million treatments administered last year, some 13.8% were done on men. That's up from just 6.1% of the approximately 150,000 treatments done in 1998, according to the American Society for Aesthetic Plastic Surgery.

There are likely to be plenty more. With sales of \$310 million in 2001, Botox is already the most popular cosmetic proce-

dures in the U.S. And the Food & Administration's Apr. 15 approval of Botox for treating forehead wrinkles has given drugmaker Allergan Inc. go-ahead to launch a \$50 million marketing campaign.

Who are all these men? Only plastic surgeons know for sure. Doubtably, there are plenty of Hollywood actors and executives. But Botox craze appears to have wider appeal. It's gaining popularity among execs and trial lawyers, both of whom rely on their looks and demeanors to help win over customers or a jury. "It's kind of a middle-aged guy in the business world, and the business world is the world of those who are young and aggressive," says John Hairston, a 42-year-old telecom accountant.

Calling Botox "pleasingly subtle," Hairston says that it gives him confidence to put my best foot forward." Others agree. One CEO got a Botox injection before embarking on a road show for a public offering, says New York cosmetic surgeon Dr. Daniel E. Antell. "He said, 'I'm in good shape, I look like I'm 30, and old, I'm afraid I would afford the price of my company.'"

And unlike plastic surgery, with Botox, there's no mess and no fuss. The injections are done every six months and take about 15 minutes. And while the procedure can be painful, recovery is usually quick. Many men schedule their injections on Friday afternoons. By Monday, any redness or swelling is usually gone. And that means no stigma in corporate corridors.

"It's so easy," says Malcolm D. Paul, a plastic surgeon in Newport Beach, Calif., who expects more men to make up 20% of his Botox patients by next year. "There are no sutures, no incisions, no convalescing."

That's good news for seekers of eternal youth. When it comes to vanity, the sexes are truly equal.

By Kimberly Wiles in New York

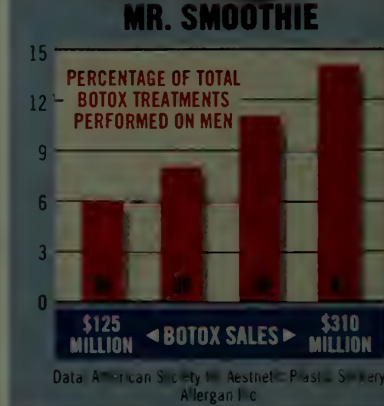
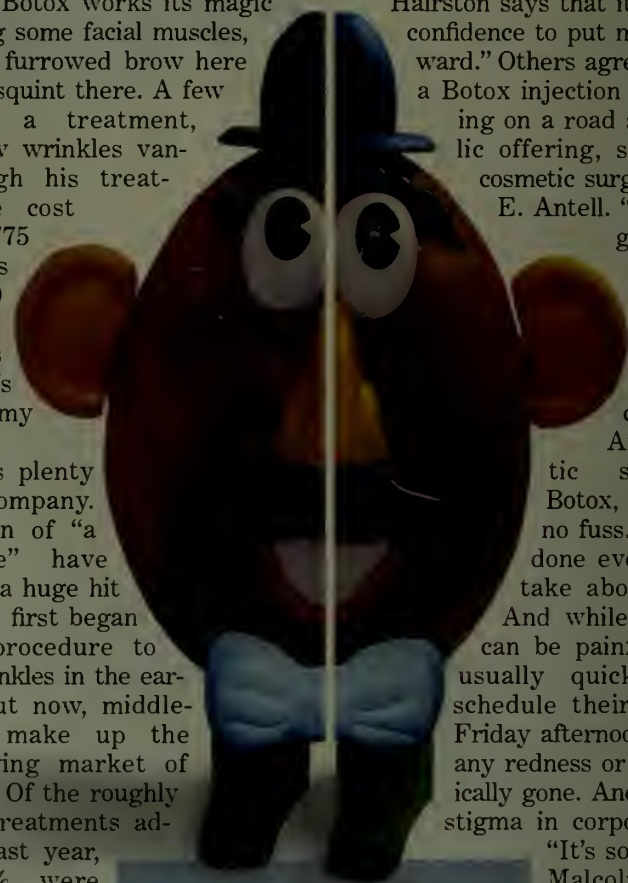
Lucas controls games, videos, merchandise—and an estimated 40% of the box office

the film—in their largest auditoriums—for up to 12 weeks. A theater is likely to get special treatment if it has a digital sound system that has been certified by Lucasfilm's THX Div. THX currently certifies the digital sound systems in 1,800 U.S. theaters and 4,300 worldwide, generating an estimated \$30 million in annual fees. This time around, Lucas is also encouraging theaters to install digital projectors, which the filmmaker says will enhance the viewing and lure more customers. Lucas' THX would also certify those projectors, although most theater owners have balked at the high price of installing them.

Getting folks into the theater means a flurry of ads and a cover on *Time* and other magazines. But to attract more younger fans—and help juice toy sales—the Lucas team has signed new tie-ins with cereal maker General Mills Inc. and with chips company Frito-Lay. In fact, General Mills is even putting out a special-edition *Star Wars* cereal. "We're trying to reach the 9-year-olds who were too young in 1999," says Jim Ward, Lucasfilm's vice-president for marketing. "They're now our sweet spot."

Still, even Lucas' spin-control machine can't control everything. The filmmaker is fuming at movie critic Harry Knowles, who got an unauthorized look at the film and published a rave review on his Internet site, aint-it-cool-news.com. Imagine if Knowles had slammed it.

By Ronald Grover in Los Angeles





www.swissre.com

Wouldn't you like to harvest more from the fruits of your labor? We can help you increase the value of your capital with innovative insurance techniques and sophisticated investment banking and asset management skills that protect you from unexpected volatility. Our solutions create a third form of corporate capital, beyond equity and debt, to help grow your business. As a leading manager of capital and risk, we're pioneering the concept of convergence by tearing down the wall between capital and risk management. Indeed, as you can see, there's a lot more to us than our name suggests.

Solutions beyond the obvious.

Swiss Re



In Business This Week

EDITED BY MONICA ROMAN

ARCHIVES THAT YOU CAN SEE IN A BLINK

EMC WILL INTRODUCE A storage system on Apr. 29 that could open up a multi-billion-dollar market for the data-storage leader. Called Centera, the system is a hardware-software combo that offers a cheap but smart way for companies to create digital archives for photos, e-mail, or other documents they need to keep. Tech analysts call Centera a breakthrough because the system would be able to find and retrieve files within seconds. Tape—the current alternative—can take days. EMC has signed up two dozen independent software companies to help sell Centera and link it to customers' servers.

A PLAGUE OF PROBES FOR WALL STREET

NEW YORK ATTORNEY GENERAL Eliot Spitzer looked like a lone crusader when he ac-

cused Merrill Lynch in early April of deceiving the public by publishing overly rosy research reports. Now he has lots of company. On Apr. 24, the Securities & Exchange Commission's Enforcement Div. launched a probe of analysts' conflicts, according to SEC sources. The commission is joining the Justice Dept.'s Criminal Div. and a task force of state securities regulators in asking whether Wall Street analysts misled investors during the go-go 1990s. Spitzer says that the practice of analysts recommending stocks in order to bring in investment-banking business is "corrupt; it may be criminal." All this tough talk has prompted Wall Street to bring in the big guns: Merrill Lynch has hired former New York Mayor Rudolph Giuliani—a onetime federal prosecutor—as an adviser.

NASDAQ MULLS A SUPER EXCHANGE

EVIDENCE IS MOUNTING THAT Nasdaq is poised to make a friendly bid for the London Stock Exchange. Representatives from both of the markets decline to confirm that talks are at an advanced stage. But a London investment banker who is advising on the deal says he would be surprised if "something doesn't happen soon."

Combining the 31-year-old Nasdaq with the 229-year-old LSE would create the world's biggest stock exchange, based on the market capitalization of traded companies. The merger would also give Nasdaq a significant transatlantic presence and buttress the LSE in the face of intensifying competition from Paris-based Euronext and Frankfurt's Deutsche Börse. That's why the Continental exchanges aren't expected to let a Nasdaq-LSE combination go ahead without a challenge.

HEADLINER: JEFFREY BEZOS

THE SHIPPING NEWS

WHEN MONEY-LOSING Amazon.com offered a 30% discount on books over \$30 last fall and later added a free-shipping offer on orders over \$99, some analysts thought the notoriously expansive CEO Jeffrey Bezos was going off the deep end yet again. Apparently not: The online retailer on Apr. 23 reported a surprise first-quarter operating profit, convincing even skeptics that it's finally turning the corner. The news boosted shares 19%, to \$16.79.

Although Amazon posted a net loss of \$23 million for the quarter—and is not ex-

pected to report a net profit for the full year—it posted an unexpected operating profit of \$2 million. Sales rose 21%, to \$847 million. The big reason, says U.S. Bancorp Piper Jaffray analyst Safa Rashtchy, is that more customers bought more to get free shipping, reducing Amazon's cost per order. Bezos says he has no plans to let up: He just extended the 30% discount to books over \$15. "This is something we think we can do for years," says Bezos. Now if he can only say the same thing about earnings.

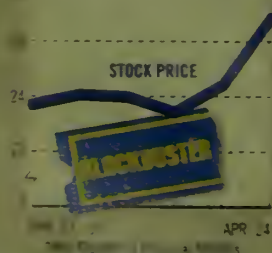
Robert D. H.



CLOSING BELL

BOFFO BIZ

Blockbuster shares jumped 9.96% on Apr. 24, to \$26.95, after the chain beat Wall Street's expectations for the first quarter. Buoyed by strong video game and DVD rentals, Blockbuster posted a 42% profit gain before a massive accounting charge resulted in a \$1.75 billion net loss. The company expects 2002 profits to be slightly above Wall Street's estimate.



PATCHY EARNINGS IN THE OIL PATCH

ON APR. 23, EXXON MOBIL SAID first-quarter earnings fell 58% as oil and natural-gas prices plunged, and the refining industry had its worst profit slump since the 1980s. Net income fell to \$2.09 billion while revenue dropped 24%, to \$43.5 billion. Marathon Oil reported an 87% decline in first-quarter net income, to \$67 million, on a 26% drop in revenue, to \$6.45 billion. It looks like Exxon and Marathon won't be alone. Analyst Matthew Warburton of UBS Warburg estimates 2002 first-quarter net income for major U.S. integrated oil companies will fall 63%.

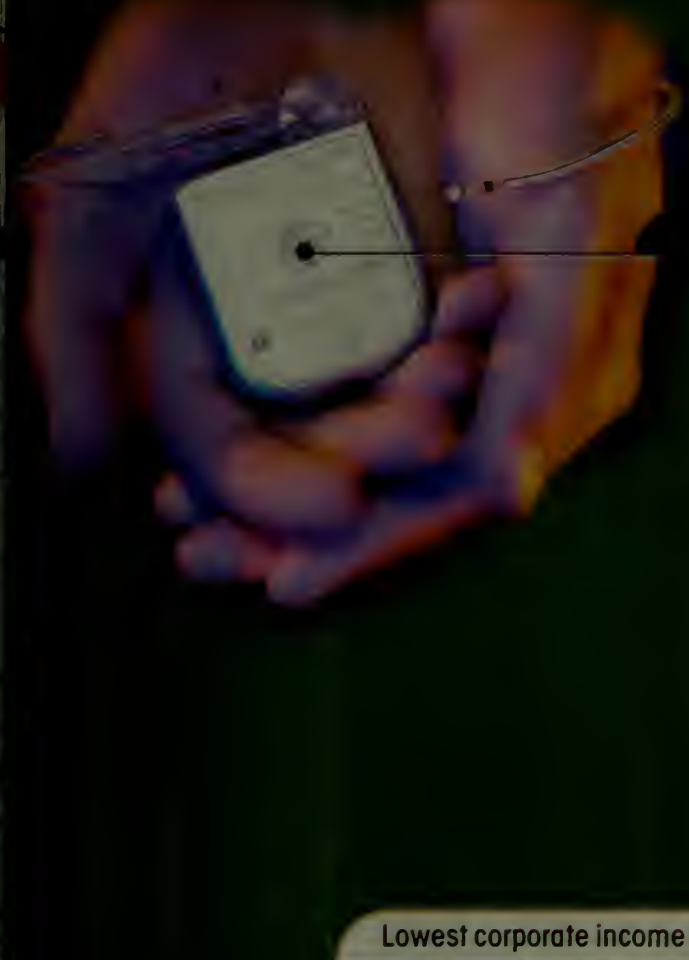
WILLIAMS' SPIN-OFF SPIRALS DOWNWARD

AFTER MONTHS OF TRYING TO come up with a restructur-

ing plan that would not include a trip through bankruptcy court, Williams Communications Group filed Chapter 11 on Apr. 22. The move came just one day of the one-year anniversary of the telecom's spin-off from Williams Cos., a Tulsa-based energy concern. Williams Communications' stock, which once commanded as much as \$60 a share, closed Apr. 23 at 6¢. It filed after reaching pacts that call for its bondholders and Williams Cos. to receive all the reorganized company's equity.

ET CETERA...

- Patrick Stokes will become Anheuser-Busch's CEO, succeeding August Busch III, who will continue as chairman.
- Celera Genomics named Kathy Ordoñez president, succeeding J. Craig Venter.
- AT&T reported a quarterly net loss of \$975 million.



Where this came from,

THERE'S PLENTY.

Fifty percent of all pacemakers and defibrillators distributed in the U.S. are assembled in Puerto Rico. In fact, over one million electrodes for the global market and over 250,000 implantable devices for cardiac and neurological applications for the U.S. market are manufactured and assembled in Puerto Rico every year. A sizable group of companies engaged in the manufacture of technical instruments, medical devices and equipment make the Island one of the largest high tech industrial development centers in the U.S. Companies like Johnson & Johnson, Medtronic, Baxter International, St. Jude, Guidant and Tyco discovered long ago the advantages that Puerto Rico offers.

Lowest corporate income tax rates in the U.S., with a maximum of 7% and as low as 2%

Lowest hourly manufacturing wages in the U.S., averaging \$9.91 in 2001

Lowest factory rental costs - an average of \$2.59 per sq. ft.

A highly educated, bilingual, quality - conscious workforce

Self - healing fiber optic telecommunications network with 100% digital switching and an extensive satellite network

Extensive network of paved roads virtually places every company within 2 hours of an airport or seaport

Island-wide high tension power grid with approximately 4,903 megawatts capacity

Air transport hub with over 4,300 cargo flights monthly to and from destinations around the world

The 4th largest container port in the Western Hemisphere

Puerto Rico has plenty to offer. We have the advantages of the U.S. monetary and banking system, U.S. patent laws and regulations and the safety and quality of life that make you feel right at home. Contact us to find out why so many Fortune 500 companies already conduct business in Puerto Rico.



PuertoRico



PRIDCO

COMMONWEALTH OF PUERTO RICO
Puerto Rico Industrial Development Company

To learn more about all the benefits Puerto Rico has to offer, visit our website at www.pridco.com or call 1-800-377-6789



How do you cut
customer service costs without
cutting customers?

Are customer service costs cutting into your profits? Do you know what to do about it? If you're working with Business Objects, you'll know. Our business intelligence software enables you to view and analyze every aspect of your customer service operation. Which means you'll have the intelligence you need to reduce your customer service costs. Without it costing you customers. To learn more, visit www.businessobjects.com/profit and register for our free online seminar "Using Business Intelligence to Increase Profits." Or call Business Objects, the world leader in business intelligence software, at 1-800-527-0580 ext. 36.



BUSINESS OBJECTS®

Business Intelligence. If you have it, you know.™

EDITED BY RICHARD S. DUNHAM

THOSE STEEL TARIFFS LOOK ANYTHING BUT IRONCLAD

Forget all the frantic politicking, lobbying, and bellyaching that led up to President Bush's decision to slap tariffs of up to 30% on selected steel imports. The real political fight will be over who gets exemptions.

Domestic steel buyers eager to circumvent the three-year tariffs will have lobbyists and sympathetic lawmakers vociferously making their case to the Administration. Combine that with threats from Europe to retaliate against American steel and other goods—from Florida oranges to Harley-Davidson motorcycles—and the result could be loopholes big enough to drive a flatbed of cold-rolled sheet metal through.

Here's why: The same law that authorizes Bush to grant a reprieve to U.S. steel producers also allows the President to carve out exemptions that allow U.S. purchasers to go without the added duty.

Exemptions are supposed to be granted if the imported product isn't made in the U.S. or is in short supply. Even before Bush announced his final decision on Mar. 5, some 1,000 requests had been filed with the Commerce Dept. by U.S. steel users, and 200 more have been submitted since.

Already, there are signs that the Administration intends to hand out waivers liberally. Treasury Secretary Paul H. O'Neill, who opposed the tariffs during internal White House debates, promised on Apr. 12 in London that "a significant portion" of the requests would be granted. That has steel industry allies in Congress steaming. "If you go helter-skelter with 1,200 requests, people overseas are going to realize that this is nothing but a wink and a nod," Representative Peter J. Visclosky (D-Ind.) told *BusinessWeek*. Visclosky turned down steel users in his district who sought his support for waivers. And the Congressional Steel Caucus is urging lawmakers not to back exemption appeals.



O'NEILL IN LONDON: Waivers aplenty

On their face, the exemption criteria sound straightforward enough. They're not. Take the waiver request from Gillette, parent of battery maker Duracell, which buys steel abroad for the exteriors of its batteries. Gillette attorneys insist that nothing but "battery-quality hot-band steel" from overseas will do for its alkalines. Metallurgists for U.S. steel companies disagree. "There isn't a steel plant in America that can't make that," insists one lobbyist. A counterclaim is in the works.

U.S. purchasers have already made strong arguments to an Administration inclined toward free trade. They say some American products are unavailable at any cost as domestic makers switch to those types of steel covered by the highest tariffs. "U.S. steel companies won't put this in writing because they don't want it quoted in exemption applications," says Michael J. Lynch, a spokesman for Illinois Tool Works, which buys a half-million tons yearly from domestic and foreign sources.

For small U.S. purchasers, there's another problem: They don't have the flexibility to move production offshore to escape duties. They also have little money to hire lobbyists.

U.S. makers, says one steel lobbyist, aren't opposed to legitimate applications for waivers but worry that "the barn door may be opened too far" for bogus claims. They see European retaliation threats as an attempt to bully Bush into granting liberal exemptions. Major producers in Australia, Brazil, and Korea have already been exempted.

The White House is promising to decide on all waivers by early July. But choosing winners smacks of the sort of industrial policy that Republicans traditionally abhor. So right about now, the Administration may be wondering how it ever got into this thicket.

By Paul Magnusson

CAPITAL WRAPUP

AFTER HUGHES

It won't be easy for President Bush to replace Karen P. Hughes, who on Apr. 23 announced her intention to leave the White House. Her varied roles—confidante, communications strategist, and speechwriter—made her George W.'s most trusted adviser.

So who is going to fill these voids when Bush's highest-ranking female staffer returns to Austin this summer? While nobody is likely to take her title of Counselor to the President, top aides who will expand their spheres of

influence include Senior Advisor Karl Rove and Vice-President Dick Cheney's counselor, Mary Matalin.

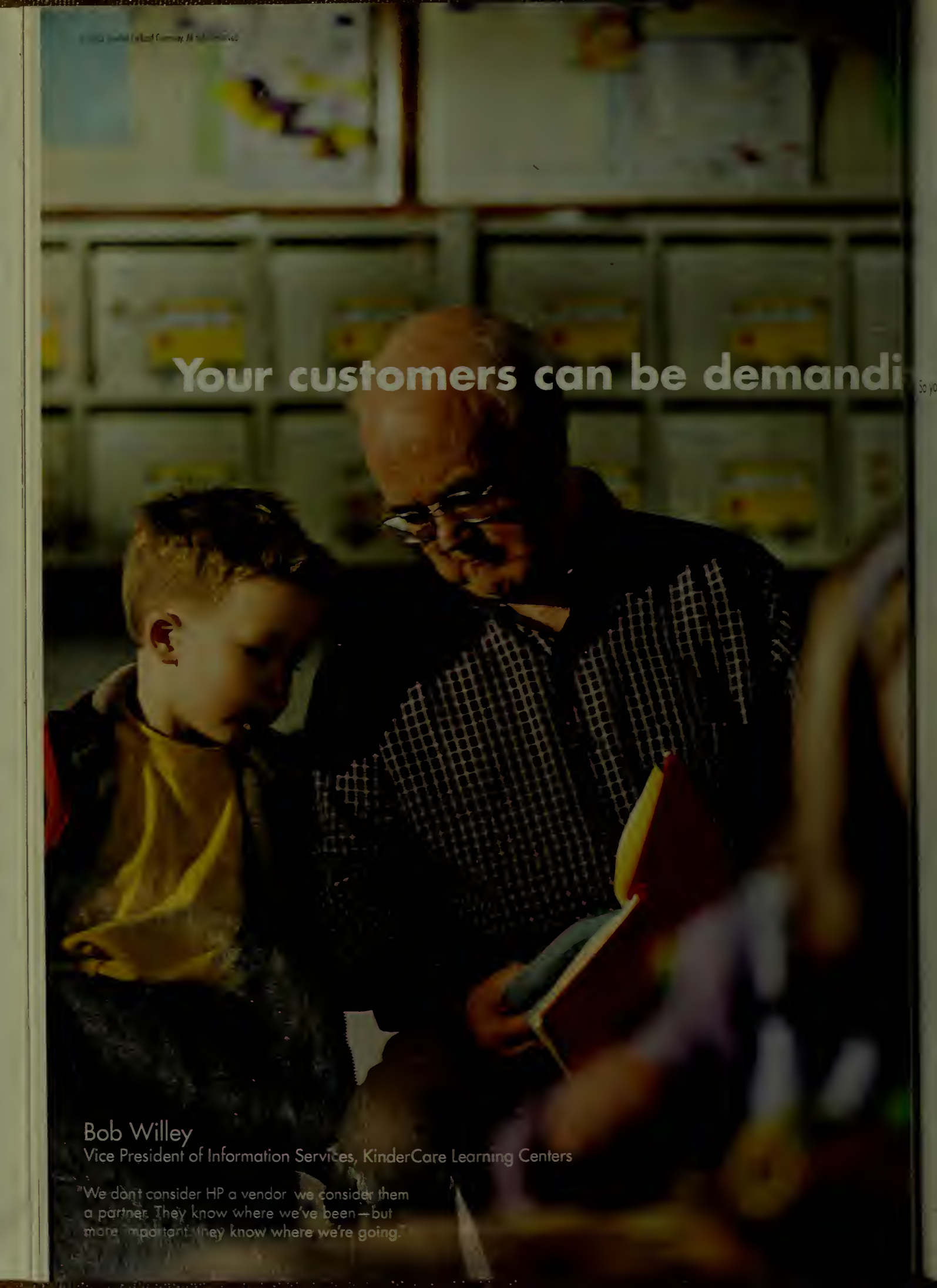
The biggest winner, though, may be White House Communications Director Dan Bartlett. Bartlett, 30, a Rove disciple who has specialized in rapid response to crises ranging from the war on terror to the Enron scandal, is Bush's longest-serving aide. He joined the then-gubernatorial hopeful in October, 1993, shortly after graduating from the University of Texas.

Rove, the only member of the 2000 campaign's "Iron Triangle" to remain

in the White House, will also become even more influential without Hughes around. Why? The more cautious Hughes would sometimes oppose Rove's politically risky strategies.

Matalin, a close Hughes ally, becomes the top female political operative. A former adviser to the first President Bush, she has quickly expanded her influence. And while Bush insists Hughes will remain in his "inner circle," Matalin will likely assume Hughes's old role in policy debates.

By Richard S. Dunham and Alexandra Starr

A photograph of a man and a young boy looking at a book together. The man, wearing glasses and a patterned shirt, is holding the book. The boy, wearing a yellow shirt, is looking at the book. They are in a classroom setting with shelves of books in the background.

Your customers can be demanding

Bob Willey

Vice President of Information Services, KinderCare Learning Centers

"We don't consider HP a vendor; we consider them a partner. They know where we've been—but more important, they know where we're going."

en. So you'd rather not spend your time with a demanding infrastructure. And while this is true in many businesses, it rings no more true than at KinderCare—because their business actually *is* children.

So when it came time to relocate their headquarters, KinderCare turned to a partner they grew up with: HP. Already working in an HP environment, KinderCare systems administrators took this opportunity to reevaluate their needs.

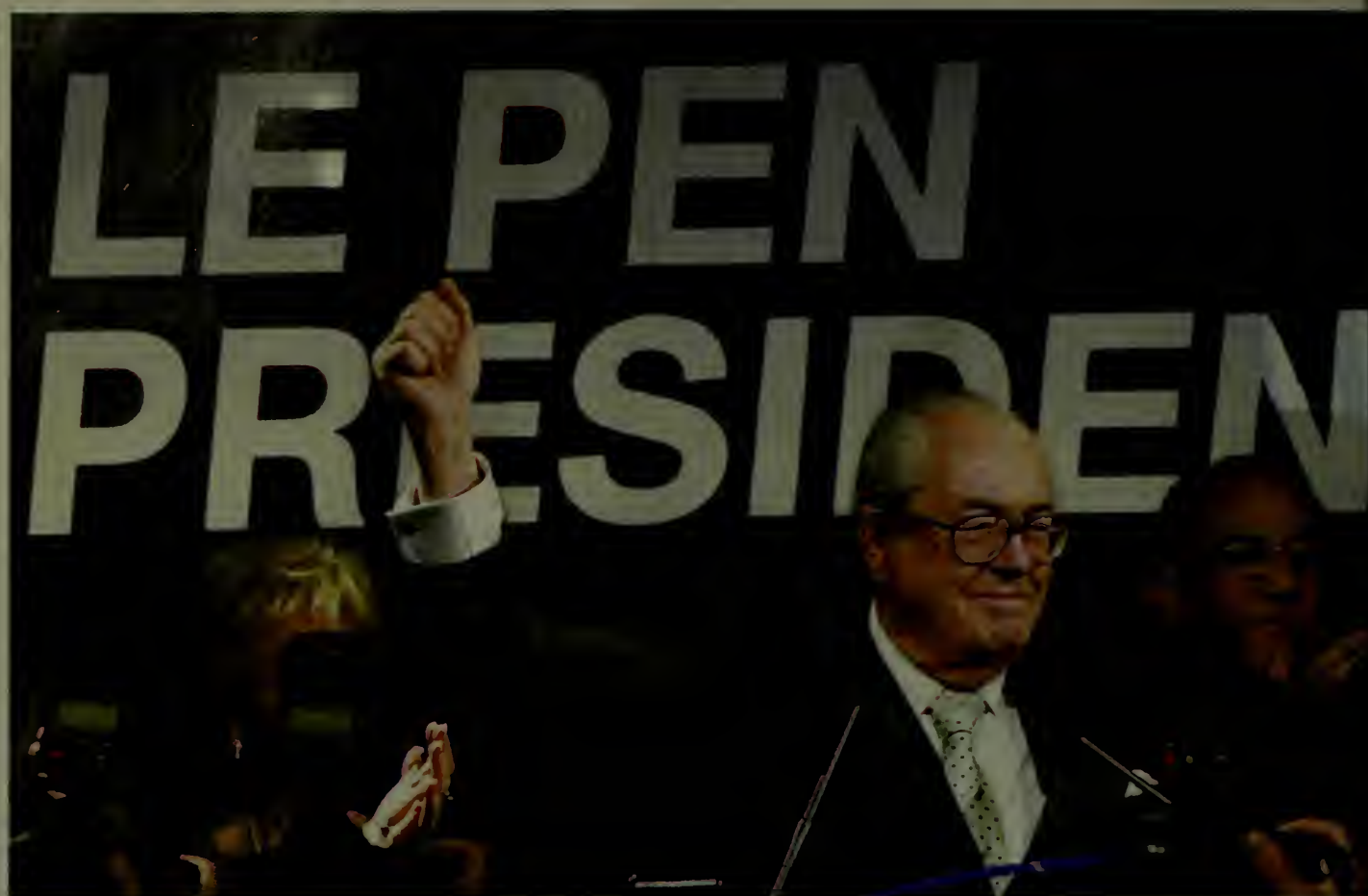
With over 1,100 locations—and growing—they needed a scalable solution that could handle more than the current 300 users at a time. After all, how could employees provide the instant gratification that kids desire if they couldn't get it themselves? Updated HP servers and HP Critical Systems Support did the trick.

Now, updates that used to take hours take place in only 12 minutes. Which means KinderCare employees can devote even more of their efforts to what they do best: teaching and caring for children.

HP infrastructure solutions are engineered for the real world of business. Because the last time we checked, that's where we all work. Call 1.800.HPASKME, ext. 246. Or visit www.hp.com/go/infrastructure.

Infrastructure: it starts with you.





POLITICS

GOODBYE REFORM?

The Far Right's rise may spell the end to economic change

With his xenophobic rhetoric and penchant for brawling with his adversaries, 73-year-old Jean-Marie Le Pen looked to many like a brutish relic from a bygone era. Until Apr. 21, that is. That's when Le Pen beat Socialist Prime Minister Lionel Jospin and ran a close second to conservative President Jacques Chirac in the first round of France's presidential elections. True, Le Pen will almost certainly lose to Chirac in the runoff scheduled for May 5. But his strong showing underscored the disgust of voters with France's political mainstream, particularly its failure to acknowledge the growing anger of *les citoyens* against immigrants, the European Union, and the Establishment itself. "We screwed up," admits Pierre Lellouche of Chirac's

Rally for the Republic (RPR) party.

Indeed they did. But so have nearly all the politicians of traditional parties throughout Europe. And now a crowd of Far-Right politicians is making so much noise that the ruling parties can no longer ignore them. These populist rightists are hammering away at hot-button issues such as crime and immigration. And they are getting results, from Cabinet seats in Italy to anti-immigrant laws in Scandinavia. The outcome could be a turbulent new era in the Continent's politics. "The populist right is against economic reform by definition. They are against globalization, the European Union, and its liberal influences," says Charles Grant, director of the Center for European Reform, a London-based think tank. That means the political center

faces a stark choice. Either mainstream politicians figure out how to quell the uprising and finally push through changes Europe needs, or they pander to the hard Right—and abandon the cause of reform.

How did *Lepenisme*—once dismissed as a spent force—as well as other hard-right ideologies get to reassert themselves? Chalk it up to the tin ears of the mainstream politicians. Since the mid-1990s, established parties of Left and Right in France, Italy, Germany, Spain, and Scandinavia have been grappling over how fast to push through economic reforms. The debate ranged from labor flexibility to pension overhauls to cuts in public spending. In fact, a broad consensus was emerging that such reforms had to go forward

BACKLASH: *Le Pen is tapping into anti-immigration anger*

Not fast enough to turbocharge growth to U.S. levels, but the forward motion was there. That was good: Pruning back the welfare state is the only way to get faster growth, which is the only way to make Europeans feel more prosperous.

But the Establishment has forgotten to explain to voters just why labor reform was necessary, why a single currency was a good idea, and why the EU was better than European disunion. The effort to explain the overwhelming need to loosen labor laws, for example, fell well short of the mark. "The political class hasn't succeeded in communicating the value of flexibility as a positive value for society," says Chief Executive Marco Tronchetti Provera of Pirelli.

At the same time, the slowdown has boosted unemployment, and crime is on the rise. People want scapegoats—whether it's EU bureaucrats in Brussels who block subsidies to prop up failing companies, or immigrants who are accused of sponging off Europe's welfare state. It adds up to a whole lot of anger—and politicians like Le Pen know it. "I am the candidate of the people," he says. French exit polls show that Le Pen's biggest backers were have-nots: the unemployed, lower-income workers, and people under 25, many of whom are jobless or have temporary work.

The Le Pen groundswell is just the latest gain for Europe's Far Right. All Center-Right governments elected over the past year—in Italy, Denmark, Norway, and Portugal—had to include Far-Right parties in their coalitions to secure parliamentary

majorities. Even in the ultraliberal Netherlands, polls predict the populist, anti-immigrant party led by Pim Fortuyn could win as much as 16% in May 15 elections. Electoral laws in most European countries strengthen the extremists' hand, by guaranteeing them a proportional share of seats if they win as little as 4% of the popular vote.

Europe's centrist politicians haven't found an effective way to counter the rightists. After Le Pen's strong showing, crime has moved front-and-center in France's June parliamentary elections, which will pit Chirac's forces against the Socialist-led coalition that now controls the government. Both sides are likely to promise tougher sentencing guidelines and increased law-enforcement spending. Neither has yet figured out how to address voters' anger over immigration.

An even more worrisome question is whether the rightist wave could slow economic reforms. Most Far-Right politicians are scarcely free-market enthusiasts. Le Pen proposes to withdraw France from the EU, enact protectionist tariffs, and slap a surtax on immigrant workers to discourage them from seeking jobs in France. Indeed, the Ultra-Right vision often embraces big government—so long as immigrants don't benefit. With this new force in play, centrist governments will find it tougher than ever to ask voters to make more sacrifices in the name of the markets.

Certainly there has been little headway in Italy since Center-Right Prime Minister Silvio Berlusconi took power last May as part of a coalition that in-

cludes the Far-Right Northern League and National Alliance. Insiders say that privatization and market-liberalization measures have stalled in recent months, in deference to the statist leanings of the National Alliance, whose leader Gianfranco Fini is deputy prime minister.

Not all of Europe's ascending rightists are anti-reform. Bavarian Prime Minister Edmund Stoiber is mounting a stiff challenge to German Chancellor Gerhard Schröder in elections this fall, and got a boost on Apr. 21 when the

Center-Right Christian Democrats scored a major win in the economically depressed region of Sachsen-Anhalt. Although Stoiber has Far-Right leanings, including a long record of anti-immigrant rhetoric, he is likely to push more vigorously than Schröder has for labor reforms and tax cuts.

Still, he's hardly a free-market devotee and, like Schröder, has often used state banks and political pressure to prop up troubled companies. With the mood changing in Europe, Stoiber may find it hard to push for significant changes. And other mainstream politicians could become im-

mobilized for fear of provoking a further extreme-Right backlash. "They will avoid anything that endangers their reelection," says Daniel Gros, director of the Center for European Policy Studies in Brussels. If the center is too paralyzed to lead, others will change the status quo instead—with unpredictable results.

By Carol Matlack in Paris, with Gail Edmondson in Rome and Jack Ewing in Frankfurt



Even in the ultraliberal Netherlands, the anti-immigrant Fortuyn could win 16% of the vote in May

PIM FORTUYN

EUROPE'S RIGHT IS ON THE MARCH

FRANCE

Extreme rightist Le Pen in May presidential runoff after outpolling Socialist Premier Jospin with law-and-order, anti-EU platform

GERMANY

Far-Right parties marginalized, but anti-immigrant, euro-skeptic Bavarian Premier Stoiber could become Chancellor

ITALY

Right-wing parties, members of Berlusconi government elected in 2001, are pushing own agenda on crime and immigration

NETHERLANDS

Newly formed populist, anti-immigrant movement mounting stiff challenge to centrist parties in May 15 elections

DENMARK

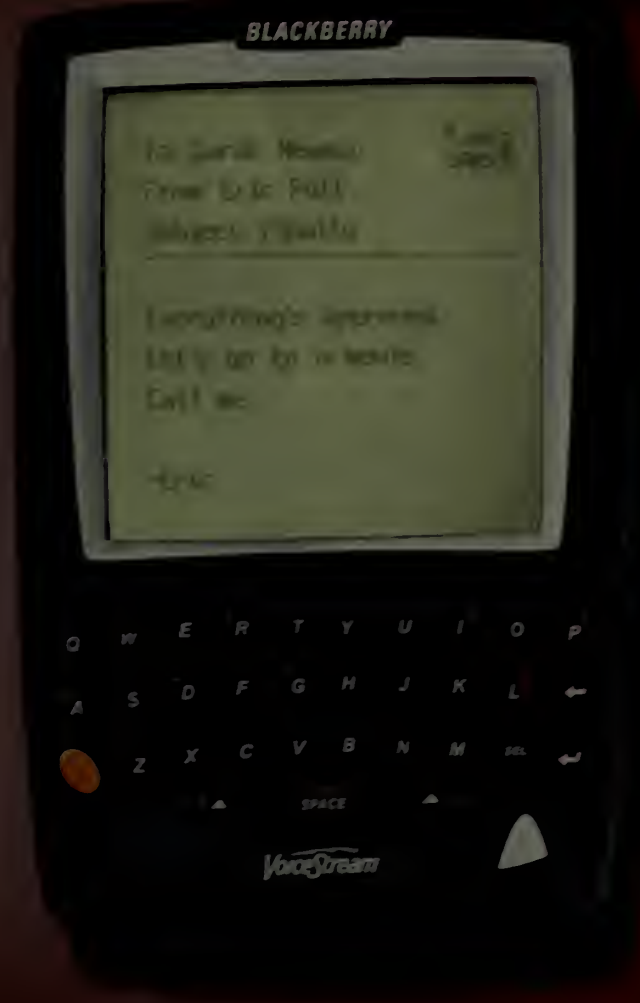
Political influence of populist, anti-immigration Danish Peoples Party has risen sharply since November, 2001, elections

NORWAY

Coalition of Center-Right and Far-Right parties, elected in September, 2001, staunchly opposes adoption of the euro currency

Data: BusinessWeek





GET MORE SIMPLICITY IN YOUR LIFE WITH THE FIRST BLACKBERRY THAT'S ALSO A PHONE.
Get the new BlackBerry with an integrated phone and you get nationwide e-mail and voice service.
Something only VoiceStream can offer. How do you get it? Go to voicestream.com or call 1-866-VSTRB2B.

VoiceStream

Wireless by **Mobile**

COMMENTARY

By John Rossant

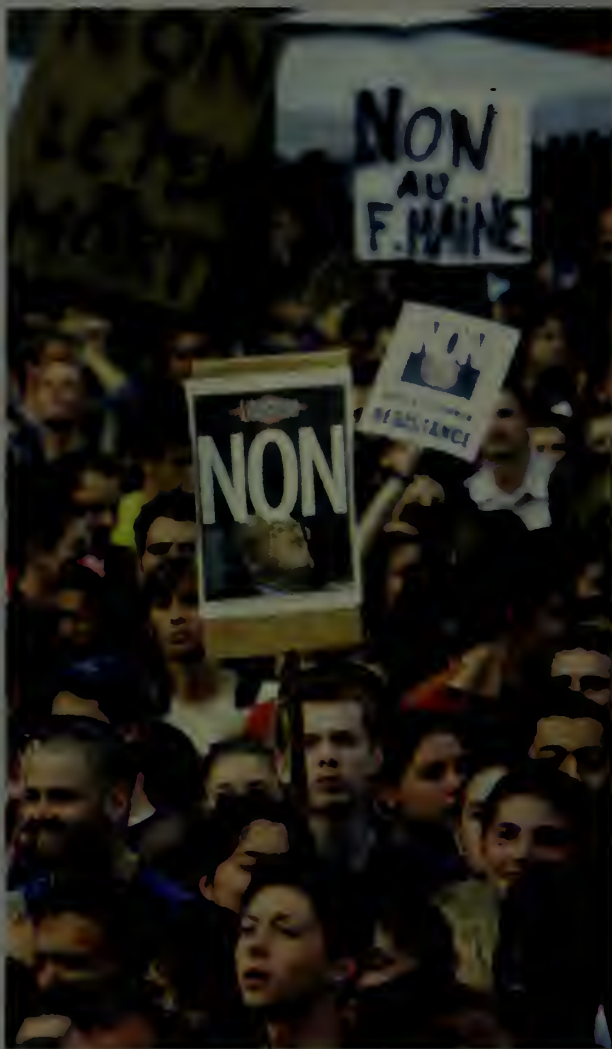
LE PEN'S WIN MAY BE JUST WHAT FRANCE NEEDS

Shock. Shame. Or simply, Non! These are the words being tossed across the French political landscape in the wake of the first-round electoral triumph of extreme right-wing leader Jean-Marie Le Pen on Apr. 21. Never before has the French Hard Right drawn such a high percentage of the vote, and never has one of its leaders made it to the runoff in a Presidential election. "Yes, alas," lamented the editor-in-chief of the influential French daily *Le Monde* in a post-election front-page editorial, "times are changing for the worse for France."

But are they? More than anything else, Le Pen's showing must be interpreted as an urgently overdue wake-up call—a *prise de conscience*, as they say in Paris—for a country that has long prided itself on being in the vanguard of so many political, economic, and cultural trends in Europe and the world. That's why this all could have a happy ending. In fact, if French leaders summon the courage and determination, they can make this a positive turning point for modern France and for Europe.

That means movement—right now—in the two vital areas that make France an anomaly in Europe. One is the pressing need for younger, fresher faces among the lineup of France's sclerotic political leaders. The other is the urgent necessity to recognize that today's France is a vibrant, multiethnic, multi-religious reality.

The two issues are closely related, and much, in fact, is brewing beneath the surface. In both the Center Right and Center Left, a new generation of forward-looking thirty- and fortysomethings has been waiting impatiently in the wings, crowded out by political



WAKE-UP CALL: *Protesting Le Pen in Montpellier*

barons such as President Jacques Chirac, who was appointed to his first government position in 1969. Now, things could start to change. On the Right, a potential new prime minister is 46-year-old Neuilly Mayor Nicolas Sarkozy. On the Left, the decision by vanquished 65-year-old Prime Minister Lionel Jospin to leave political life opens the door to younger leaders.

France also must confront the largely taboo subject of assuring the country's racial and religious minori-

ties, particularly the roughly 10% of the population with a North African Muslim background, a seat at the national table. Misguided social planning led to vast, government-built suburban ghettos ringing French cities. The inward-looking political elite has never reached out to these minorities. "Unlike Britain and Germany, there is simply no representation in the main French political parties of people with African and Arab origins," says Paris banker Omar Benderra, who was born in Algeria. "There is just a total lack of visibility."

This blindness has bred stupidity. France's Center Left government, for example, too scared to stir up the social pot, has looked the other way during recent anti-Semitic violence. Politicians also ignored early signs of social disturbance in the housing projects. The first vandals arrested for torching synagogues, seriously criminal acts in other civilized countries, got off with minor suspended sentences. Instead, Paris should have sent a firm message that such behavior is totally unacceptable.

The political turbulence of the France of 2002 is in some ways reminiscent of the brutal jolt America received in the late

1960s, when race riots devastated inner cities in the U.S. Then, a traumatized America began to come to terms with the destructiveness of racial exclusion. It was something that the white Republican and Democratic establishments of the time had ignored for far too long.

Just as Le Pen is shocking France's conscience today, George C. Wallace and his segregationist American Independent Party shocked the U.S. by picking up some 10 million votes, or 14% of the electorate, in the 1968 Presidential election. In some ways, the U.S. is still working out the repercussions. France may be only just beginning.

Rossant covers European politics.

AT LAST France must confront the largely taboo subject of assuring racial and religious minorities a seat at the national table

Finally, your chance to experience space exploration.



SPRINGHILL
SUITES
Marriott

afraid of heights? Not fond of powdery orange drinks? Claustrophobic? Not to worry. At SpringHill Suites you get a suite with all the space you'll need. In fact, you get 25% more space than a comparably priced room. A suite with voicemail-and-Web-access work space, a kick-back-and-relax space, even a fridge-and-microwave space, all for the price of a room with no space—not to mention atmosphere. Best of all, there are nearly 100 SpringHill Suites locations, in places you actually travel.

Now through June 15th, make three stays and earn two free weekend nights plus Marriott Rewards® Silver elite status. For details or to register, call 1-888-MARRIOTT or visit marriott.com

Your Marriott Awaits.™

© 2002 Marriott International, Inc. Marriott Take Two promotion good 5/24/02-6/15/02. Registration for this promotion is required. Weekend nights awards expire 12/31/02 and are valid Friday-Sunday. Marriott Rewards program terms and conditions apply.



**#1 in BusinessWeek's 2001
Buying Guide**

Compaq Evo Notebook N600c
Mobile Intel® Pentium® III Processor 1.20GHz-M
Designed to meet the needs of
professional road warriors

**Winner, Network World Best of
the Tests Award, Nov. 2001**

Compaq ProLiant DL380 Server
Intel® Pentium® III Processor 1.13GHz

The first density-optimized server to provide
enterprise-class availability and performance
all in a 2U form factor



WHAT MAKES COMPAQ TECHNOLOGY SO VALUABLE ASK THE CRITICS.

Best Desktop PC, Best of COMDEX 2001

Compaq Evo D500 Ultra-Slim Desktop
Intel® Celeron® Processor 1.30 GHz
Leading the evolution of the desktop PC



**1st Class Award, Mobile Computing,
Feb. 2002**

Compaq iPAQ H3835 Pocket PC*
Powerful and expandable pocket PC that
enables you to connect to your office

What makes a best buy? How about advanced technology, practical versatility, responsive technical support.
And those are just a few of the many qualities that put Compaq at the top of every shrewd purchaser's list.

Compaq CarePac Services provide a variety of upgrades to enhance the base warranty on your Compaq products.



For latest pricing and availability, call toll free

Buy direct from Compaq at 888-349-5704,
compaq.com/awardwinning/bw,
or visit your local reseller.

COMPAQ

Compaq PCs use genuine
Microsoft® Windows®
www.microsoft.com/privacy/howtotell

*The Compaq iPAQ H3835 Pocket PC is a retail model that is feature equivalent to the iPAQ H3850 Pocket PC commercial model. Compaq, the Compaq logo, Evo, ProLiant and iPAQ are trademarks of Compaq Information Technologies, L.P. in the U.S. and other countries. Intel, the Intel Inside logo, Pentium, and Celeron are trademarks or registered trademarks of Intel Corporation or its subsidiaries in the United States and other countries. Other products mentioned herein may be trademarks of their respective companies. Compaq is not liable for editorial, pictorial or typographical errors in this advertisement. © 2002 Compaq Information Technologies

EDITED BY ROSE BRADY

MALAYSIA: A SURPRISING ALLY IN THE WAR ON TERROR

For years, Malaysia's Prime Minister, Mahathir Mohamad, has been the bad boy of Asian politics. When Malaysia's currency collapsed in 1997, he blamed foreign traders—and slapped on controversial capital controls. Then, he ignored howls of the Clinton Administration after he arrested, tried, and imprisoned his potential rival, former Deputy Prime Minister Anwar Ibrahim, on trumped-up charges.

But in recent months, the leader known for bashing the West has suddenly become its ally. President George W. Bush is expected to welcome Mahathir warmly when he arrives at the White House on May 14 for his first visit since 1994.

The reason: Mahathir is playing a key role in the war on terrorism. Since September 11, Malaysian police have detained more than 60 alleged terrorists under the country's Internal Security Act, which allows suspects to be held without trial for two years. The latest round of 14 arrests came on Apr. 18.

Mahathir is also presenting himself as the Islamic world's moderate voice, stirring controversy at a recent summit of Muslim countries by calling suicide bombers terrorists. "Obviously the world has changed," says Abdul Razak Baginda, executive director of the Malaysian Strategic Research Center in Kuala Lumpur.

Mahathir's government is "willing to take a middle ground and to cooperate with the U.S.," adds Daryl M. Ank, senior fellow at Washington's Heritage Foundation. Ever the pragmatist, Mahathir, 76, seems intent on using the war against terrorism to repair relations with the U.S. and increase his stature on the global stage. That could bring benefits such as new investment from the U.S., Malaysia's No. 1 trading partner. American companies gained the Malaysian government's approval for \$870 million in investments last year, but only a tiny portion came from new investors. Mahathir wants to attract new companies as well as

keep the likes of Motorola Inc. and Hewlett-Packard Co. from shifting production to lower-cost China.

Perhaps even more important for Mahathir, however, are his political reasons for combating terror. By wielding the security act against alleged extremists, he is strengthening his grip on power while sending a warning to any rivals from the opposition or within his United Malay National Organization (UMNO). "Mahathir is riding on the issue of September 11 for his own political purposes. He has been very aggressive," says Hatta Ramli, a top official of the opposition Islamic Party of Malaysia (PAS), which aims to make Malaysia

a fundamentalist state. Mahathir sent a signal in August when police arrested the son of PAS leader Nik Abdul Aziz for allegedly plotting with regional groups to establish Islamic rule. With the opposition weakened, UMNO recently won two by-elections, seen as a vote of confidence in Mahathir's crackdown.

Will Mahathir and Bush open a new chapter in U.S.-Malaysian ties? The two governments are likely to boost cooperation in fighting terrorism. Malaysia has already provided key intelligence on the September 11 hijackers and al Qaeda. For

its part, the Bush Administration is turning a blind eye to Mahathir's liberal use of the security act—in contrast to the Clinton Administration, which criticized it.

Some experts believe the Bush Administration may one day regret its tacit blessing of Mahathir's tough tactics. It's also possible the sharp-tongued leader won't be able to give up his old habit of blasting the U.S. from time to time. For now, though, rhetoric is unlikely to bother the Bush camp much—as long as Mahathir keeps working on his legacy as Islam's moderate statesman and anti-terror warrior.

By Frederik Balfour in Kuala Lumpur, with Stan Crock in Washington



MAHATHIR: *Moderate statesman?*

GLOBAL WRAPUP

PAKISTAN'S REFERENDUM

There's little doubt that Pakistani President General Pervez Musharraf will win the Apr. 30 referendum he called to ensure his rule for five more years. But just to make sure, Musharraf, who seized power in a bloodless coup in 1999, has been campaigning feverishly around the country.

Musharraf has also outlawed protests against the controversial balance, which has been criticized by major political parties and national newspapers because the Pakistani constitution

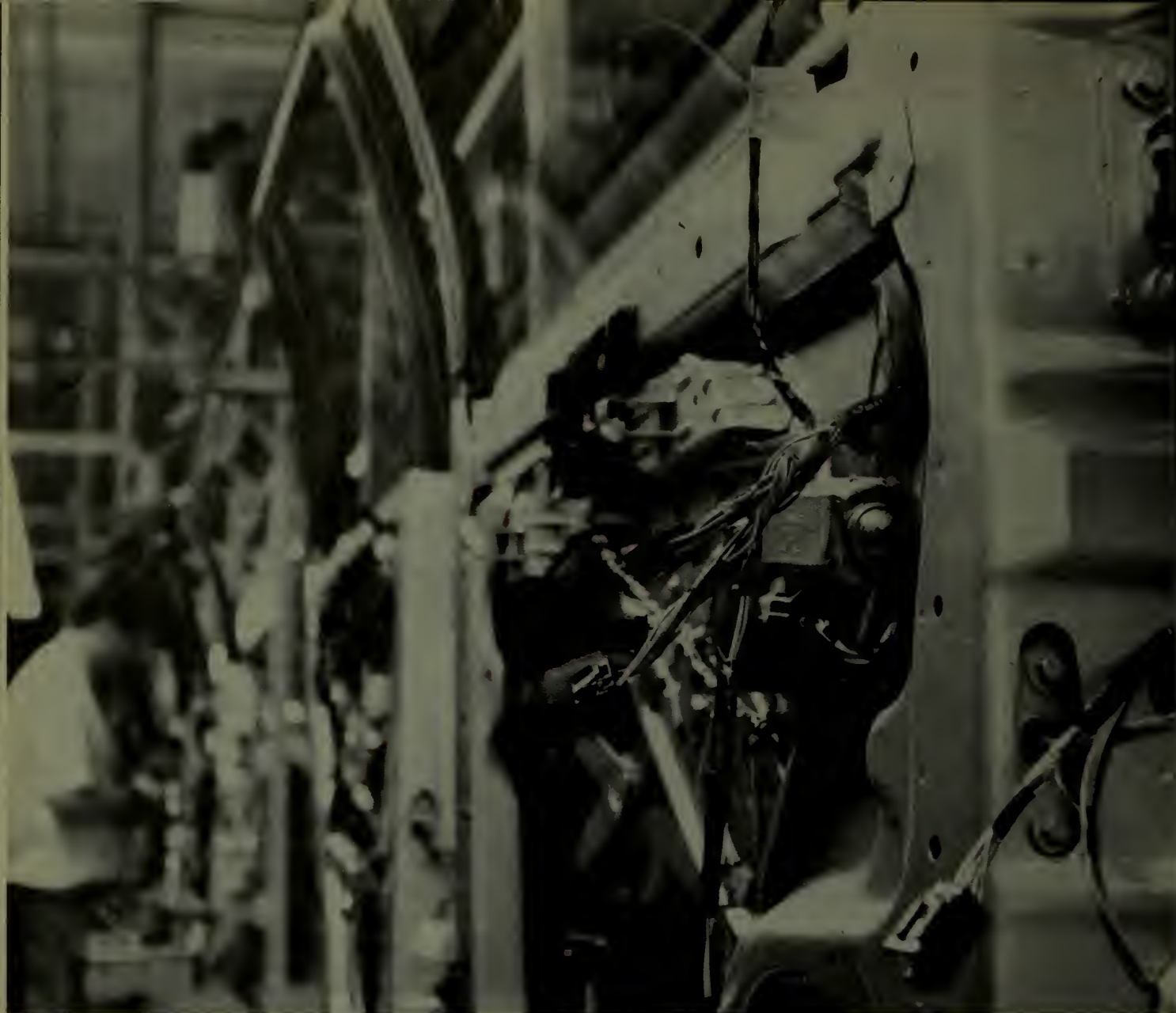
technically requires the National Assembly to name the president. Although seven Islamist parties have asked the Supreme Court to declare the referendum unconstitutional, that's seen as a long shot. Meanwhile, all state employees will be required to vote—a bid to boost the turnout.

What do Musharraf and Pakistan stand to gain from this exercise? Musharraf wants more time to continue changes accelerated after September 11. Since he began backing the war on terrorism, he has cracked down on religious extremism and

boosted the economy. Sanctions have been lifted, aid is flowing, and foreign exchange reserves top \$5 billion.

By clamping down on all opposition, though, Musharraf has undercut his own efforts to gain legitimacy. Now, many Pakistanis are writing off October's parliamentary elections as irrelevant, since Musharraf has declared that the National Security Council, which he heads, will be the key decision-making body. He still wins kudos in the U.S. But Musharraf is losing popularity at home.

By Nawaaz A. Mangi in Karachi



ORDERS ARE ON TIME. EVERYONE'S IN THE LOOP. CUSTOMERS ARE HAPPY

(AN ADAPTIVE SUPPLY CHAIN IS A BEAUTIFUL THING.)

A business is a jigsaw puzzle of people, products and processes. And because it's constantly in flux, it's hard to predict what, when. The mySAP™ Supply Chain Management Solution connects you with your customers, partners and suppliers, so you can adapt on the fly to shifts in supply and demand. It also offers higher visibility and covers all the bases – from planning and execution to networking and coordination. Which makes it the only adaptive SCM solution that can turn a supply chain into a profit center. To find out how you can optimize your supply chain, go to sap.com/scm

THE BEST-RUN E-BUSINESSES RUN SAP



SUPPLY CHAIN TEAMWORK

Nothing but NET (profit)

Compiled by Lothair | Researched by Norbridge

Supply Chain Improvement Activity More Focused After Sept 11

The supply chain never sleeps. It's a complex sequence of activities that moves raw materials and component parts through sourcing, manufacturing and

Palm, Inc. Improves Time to Market Through Supply Chain Planning

Company: Palm, Inc. is a pioneer in the field of mobile solutions and a leading provider of handheld devices. Palm's handheld solutions allow people to access their most critical information wherever

Challenge: Palm's current processes were getting the job done. But, with ever-changing customer demands and a highly competitive environment, management faced some challenging goals. Palm wanted to shorten planning cycles, improve logistics and increase visibility, and anticipate timing points to ramp up and ramp down.

Approach: Palm worked with SAP and Bristlecone, Inc. to improve their processes using the mySAP Supply Chain Management (mySAP SCM) solution. Processes targeted included joint inventory planning with customers; establishing accurate production plans for suppliers, and allocating finished goods at the account level.

Results: Palm reduced their planning cycle time by 50%, leading to improved quality and stability of the overall supply chain plan. Inventory turns were improved from 10 to 15 turns, and overall channel inventory decreased 20% while maintaining customer service levels. Palm was able to achieve stronger sales growth, double shipments and reducing stock-outs. Cash-to-Cash cycle time decreased from 23 to 14 days with further improvements expected.

processing, finished goods inventory, and customer fulfillment. Some leading companies recognize that their supply chain is their heart and soul, and the healthiest supply chains win the race – driving customer satisfaction, cost control, and investment productivity. Most supply chains, however, are still underperforming, and therefore offer tremendous opportunity for improving corporate results. The good news is that supply chain improvement methods and role models are quite compelling, and the tools to drive radical improvements in supply chain performance get better every day.

Events of last year – the dot com implosion, economic slowdown, and September 11 shock created major stresses for many supply chains. Companies were challenged to keep critical supplies and products moving, maintain manufacturing productivity, manage inventory levels efficiently, and keep emergency transportation costs in check.

Despite the slowdown and unexpected events, many companies are not standing still, and continue to initiate supply chain improvement initiatives. The reason? Rapid financial payback,

"Palm worked with SAP and Bristlecone, Inc. to improve their processes using the mySAP Supply Chain Management (mySAP SCM) solution. Processes targeted included joint inventory planning with customers; establishing accurate production plans for suppliers, and allocating finished goods at the account level."

often within months, contributing to improvements in productivity and profits when you need it most. And, perhaps more important, the growing recognition that excellent supply chain performance has strategic value – improving customer positioning and product quality, as well as long-term relationships with suppliers.

As our panel of experts testifies in the following pages, however, shrinking volume and profits tend to focus the mind accordingly, changing the nature and mix of supply chain initiatives. In the last year, companies were more likely to postpone enterprise-wide supply chain projects in favor of more bite-size performance improvement with the most obvious "bang for the buck."



Ka Fore, CIO,
Fujitsu Siemens Computers

How did Fujitsu Siemens Computers prepare for the future in its supply chain?

As Europe's leading computer company, we serve the market in all major markets across Europe, the Middle East and Africa and are one of the world's most complete product and service providers. What's more, we are the only major computer manufacturer in Europe. This means we face the increasing, fast-paced demand for our products, the seasonal fluctuations of the PC and server markets, and the other hand, expectations of our European customers that we have grown, and their demand for more efficient systems to be delivered with no delays. This means our forecasts need to be exact and our supply chain needs to be kept to a minimum.

How did you respond to those requirements?

With hundreds of orders being placed daily for thousands of PCs, servers and notebooks, we felt a real sense of urgency to make the transition that would give us a competitive advantage: we superior customer satisfaction and lower costs. These efforts are part of our Supply Chain Excellence master plan, which ensures continuous improvements and innovations in every phase of production and underscores our commitment to provide the best quality, performance and service.



What results have you seen so far?

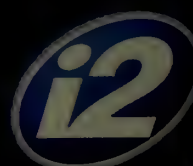
Our systems planning is now completed and we have achieved more than 10% savings in costs and reduced inventory from 50 to 70 percent. Customer satisfaction is on the rise as delivery lead times have dropped from 65 to 95 percent. The cost savings resulting from inventory reduction throughout the supply chain amount to over 10 million Euros to date.

***i2 has helped us achieve additional savings of over 10 million Euros and still improving.**

Why did you select i2?

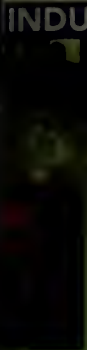
i2's business processes are designed for the best solutions, and its supply chain solutions are the best. It had a proven track record of being able to deliver a broad footprint encompassing all the processes that we needed to optimise demand planning, factory planning, supply chain management, demand fulfillment. This has an extensive selection of case studies and a successful track record of European production facilities.

With over \$29.9 billion in bottom line audited value delivered to customers to date, i2 is the value company. For more information on i2 solutions for managing your dynamic value chain, visit www.i2.com or call 1-866-288-4896.



i2.com

INDUSTRY EXPERTS



DAVID SISSON
President and Chief
Executive Officer
AirLiance
www.airliance.com



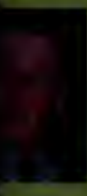
TOM SANDERSON
President and Chief
Executive Officer
ClickLogistics
www.clicklogistics.com



BOB SMITH
Chief Executive Officer
Harmony Software
www.harmony.com



ED SITARSKI
VP Advanced Planning
J.D. Edwards
www.jdedwards.com



HERBERT KLEIN
Director of Consumer
Packaged Goods
J.D. Edwards
www.jdedwards.com



WILLIAM MICHAEL
VP Marketing
Roadway Express
www.roadway.com



NED AHEARN
Principal, Supply Chain
Management Systems
Unisys
www.unisys.com



RICHARD SHERMAN
Chief Marketing Officer
V-3 Systems
www.v3systems.com

>

Based on our discussions, there appears to be no shortage of supply chain projects with clear payback. A theme of "back to basics" is evident, emphasizing focused efforts such as enforcement of transportation routing compliance, automation of core carrier exceptions, event visibility, and one-to-one collaboration with key supply chain partners.

As the economy recovers and supply chain IT budgets open up, the relentless trend of supply chain process "webification" will continue and companies will get their arms around supply chain visibility issues on a global scale. With more and more information readily available and easily shared, the rollout of sophisticated supply chain management, planning, and optimization tools can continue and accelerate. Previously limited to Fortune 500 companies with hefty IT budgets, these powerful tools will migrate to decentralized Fortune 500 firms and then to mid-tier firms with the increasing growth and availability of new application service provider (ASP) tools. When companies can buy these services "by the drink," the sky is the limit for supply chain efficiency gains over the next 10 years.

Supply Chain Responses in Today's Economy

The last 12 months have been very challenging, forcing many adjustments in response to the economic slowdown and shocks emanating from September 11. These forces have changed the way companies are dealing with their supply chains as well as the frequency with which some companies analyze their operations.

"I have seen some supply chains move from primarily scarcity-driven to abundance-driven – from a collaboration phase, business objective to a return on assets," said Ed Sitarski. "And that's where some of the more strategic applications have come in, as well as more of a general feeling that there's increased global volatility that has motivated people to say, 'well, maybe I should revisit my business strategy on a monthly level as opposed to only looking at it every six months or every 12 months.'"

For Richard Sherman, the logistics stressors of the last year laid bare the fact that the supply chain is much more complicated than early models made it out to be. "Management of the supply chain is a complex undertaking. The simplistic model of the supply chain is evolving to a more complex network model," said Sherman.

"I think one of the biggest things we're seeing is that people are not looking at the supply chain any more as sequential location-by-location or lane-by-lane. They're taking a more holistic look at their network and how to gain visibility to all of the events that occur that cause change both inside and outside of the organization. And I think that's spawned a lot of the emphasis on collaboration and supply chain process management beyond the four walls," he said. "The fact is that people are recognizing that what the retailer is planning to buy can have significant impact on what they're forecasting to sell. And wouldn't it be great if they could have visibility to what the customer is planning to buy and map that against what the forecasting system is telling them to be selling so that they can manage that gap."

Progress toward those supply chain goals is the driver of strong IT expenditures predicted to occur this year despite the soft economy, said Ned Ahearn. "The focus of these expenditures is typically around sourcing and eProcurement, and improving customer connectivity, i.e., knowing and understanding the status of product shipment by customers. While most companies will take a hard look at IT expenditures and consulting, our feedback is that most everybody is looking at expenditure levels that are at or above the same levels as last year. There is a big difference between the manufacturers who have heavy commitments to technology versus those that do not in terms of their competitiveness and their ability to actually manage cost. Fifteen to 20 years ago, the impact of systems on cost and competitiveness was in a range of 5% to 8% between the best and the worst. Now the best companies with the top cost and customer

>



satisfaction results, it can be as much as a 35% and 45% difference. Companies realize they must continue investing in technology – to connect better to customers and to control operations.”

Tom Sanderson says supply chain customers are looking most for rapid payback. And that’s not measured in traditional return on investment but in time period to payback. “If I make an investment, am I going to earn that back and be in a net positive position measured in weeks or months? Not 12 to 18 months but two to three months. And that’s the kind of technology that we find people are willing to pull the trigger on, where they can ‘pay by the drink’ so to speak and get a return immediately.”

“In today’s economy, we see companies who want to cut costs and improve profitability,” said Bob Smith. “Our customers are also demanding a rapid ROI for their software investments. By providing global supply chain visibility, Harmony quickly identifies cost saving opportunities that can range anywhere from 1% to 20%, and in some cases, even higher. With Harmony, for example, the CFO and VP of Logistics or Operations are seeing the same information at the same time, enabling collaborative decision-making...real time with accurate information.”

One change Herbert Klein has seen among consumer packaged goods companies’ use of software and technology is that they “find themselves to be more comfortable with the [supply chain]

technology out there today. A year ago a lot of them were very nervous that they weren’t moving fast enough. That they weren’t taking advantage of the trading communities that were springing up, and I think really what we’ve seen in the last few months talking to these companies is that their businesses are just getting back to basics. What I mean by back to basics is there’s a real focus on execution. A lot of companies are finding you can develop a fantastic plan to optimize your business, but if you don’t execute your plan, you’re wasting a lot of money and resources on the planning side. There’s a real focus back to making sure that the execution is right. That you can actually build a plan, and deliver what you promise.”

Some very basic changes in supply chain planning and execution occurred after last September’s terrorist attacks that grounded air cargo flights for days.

“Right after September 11th we didn’t see a significant uptake in LTL, converted from air. Some customers, who shipped air, did move some of their freight back to trucking. We believe a limited amount of it stuck around. Some of it went back,” said William Michael. “Right now shippers are in the evaluation stages. They seem to be asking, ‘do we need to do as much air as we did before?’ So, the disruption of air comes into play. Our shippers may push a little more to the LTL side, but I don’t know if it’ll be a lot.”

David Sisson concurred. “To say that my trading partners in the aviation business have been affected is perhaps a

bit of an understatement. Their attitude in the past few months has been one of panic in terms of survival when you read in the business press serious discussions about major carriers filing bankruptcy. A few months ago we would have thought that was impossible. Cost reduction is very important, but perhaps more urgently their attitude is cost management.”

Supply Chain Bang For the Buck

Many companies are finding that corporate initiatives focused on supply chain performance can generate impressive results. Can you give some examples of where you’ve seen the biggest bang for the buck?

“Consumer products in general are undergoing great changes. Many companies recently completed acquisitions. Now they’re grappling with that acquisition, and identifying core products and maximizing productivity. And managing the supply chain is a big piece of what they absolutely have to do to refocus productivity and cost goals,” said N. Ahearn. “They are focused on their top brands and their top customers and managing the supply chain either in DSD, managed inventory, or other type of inventory relationship that a particular customer needs to have. And to operationalize these core products and key customers, the top companies are coordinating their customer relationship management and supply chain systems to manage fulfillment.”

One of Bob Smith’s customers was able to smooth the effects of a major merger by using supply chain visibility software to measure performance from day to day. “ChevronTexaco has Harmony running on each executive desktop...monitoring key business processes across the enterprise to ensure that operational excellence is maintained during and after the merger. Because our solution is a complete application with audit-ready Key Performance Indicators built in, it was up and running in less than 90 days...not 24 months like some of our



In grade school, it took lots of colors to do things right.
Now it just takes one.

The widest array of transportation services in the industry. Yellow really stands out. You'll find everything you're looking for to get your shipments where they need to be. Like the broad coverage of Standard Ground[®] and the guaranteed service of Definite Delivery.[®] Yellow also offers expedited, time-definite shipping with *Express[®]* and the worldwide coverage of Yellow Global. Our Standard Ground Regional Advantage is your fast choice for regional service. Plus, Yellow offers a host of solutions to address your various specialized transportation needs. No matter which you choose, your shipments get there intact and on time. In fact, continuous operational improvements have helped Yellow become the first carrier in the industry to be ISO 9001:2000 certified for quality. And, at Yellow, we're one step ahead with award-winning 24/7 customer service centers and innovative technology including myyellow.com. All of which make it easy to see why the color you need in your transportation picture is Yellow.

Big shipments for business. Anytime. Anywhere. At any speed. Guaranteed.*



www.myyellow.com

1-800-610-6500

© 2001 Yellow Freight System, Inc.
All Rights Reserved.

*Applies to Exact Express and Definite Delivery.

competitors," Smith said. "Our customers demand real-time data for faster decision-making. They don't have the patience or the budgets for long, tedious implementations."

CHEP USA is another firm that requires fast decision-making. According to Tom Sanderson, "CHEP, like many large shippers, has a good core carrier program. They have an electronic tender process where they send out the primary tender to truckload carriers. But in truckload, on any given day you're going to have up to one-third of those shipments where the primary carrier is not going to have capacity to handle the load. So, what we've done is provide dynamic carrier selection (DCS) to drive all that excess freight back to CHEP's other core carriers. Everything is set up. The core carriers come back and say okay, I'll take this one, I'll take that one. I don't want that one. And it's a win-win because CHEP gets their freight covered by their other core carriers at contractual prices."

William Michael said his company creates a similar collaborative environment between the shipper and the consignee for carrier and route compliance. "Large retailers have determined that non-compliance is very expensive when it comes to transportation and shipping. So, they have very strict protocols for suppliers shipping into their distribution centers. We've capitalized on a decade of system development and strict adherence to administrative processes to develop best practices; and, we have taken

these to our customers, which are both suppliers and consignees in the supply chain," Michael said. "For example, one problem in the retail supply chain is the chargeback. We've found, by using our information and systems, we can clear up miscommunications between supplier and consignee - avoiding the chargeback and increasing efficiencies in the process. Really, their intent isn't to make money on chargebacks even though sometimes it may seem that way. They want compliance because non-compliance is costly. By being the intermediary and bringing the two together, Roadway can actually improve supply chain processes, help meet compliance protocols, and reduce supply chain costs."

David Sisson holds out his company, AirLiance Materials, as a success story despite difficult times. "To say that airlines are not expert in materials management of spare parts would perhaps be the second biggest understatement. They have accumulated a surplus of spare parts. These are the things that come on and off of airplanes during maintenance activities. Three airlines - and I'm picking up your theme of specific examples here, some time ago faced this issue and asked if we could do something about it....United Airlines, Air Canada, and Lufthansa Technik decided to attack the issue of materials management and supply chain management. They had two goals. One is to get rid of the surplus in their spare parts inventory and turn it into cash. They would also like to buy from other

airlines' surplus rather than buying a part from the OEM. And that's AirLiance Materials was created years ago."

In the last four years, AirLiance taken about \$100 million of excess inventory off their balance sheets turned it into cash. "Now, before I write this down and think I'm a magician, we didn't hand them back \$100 million cash," Sisson said. "It was somewhat less than that. So, we didn't sell it for what was on their books for, but we did take an unused asset and turn it into cash. Perhaps a more important achievement for an airline."

Edward Sitarski's example of a supply chain success story is David Joseph, a scrap dealing company. They have real-time visibility so they can manage and optimize their deployment to meet customer needs. But, the penetration of supply chain, both analysis and planning applications in the marketplace is very small. And until we have the action piece that gives that real-time decision support or optimization, we're not going to be able to exploit that communication.

Pacesetters

Which companies do you most admire for their success in supply chain management?

"I've always admired the automotive manufacturing business because if you only got two or three days supply sitting in your warehouse or manufacturing

MEDIA PANEL

The supply chain industry executive roundtable event, sponsored by Lothair, Inc., was convened in Chicago on January 21, 2002 at the Omni Hotel. Roundtable panelists are quoted in the accompanying story. At the January event they were addressed by a panel of

supply chain industry trade editors and publishers who made presentations on items of current interest in supply chain management. Editors and roundtable participants later engaged in dialogue covering various industry issues.



Nancy Bartels
Managing Editor,
Alchemy



Clayton Boyce
Editor and Publisher,
Traffic World



Peter Bradley
Editor, Logistics
Management &
Distribution Report



John Burnell
Editor,
Frontline Solutions



Tom Gelinas
Editor,
Fleet Equipment



Dennis Grim
Executive Producer,
Business-to-Business
Communications



Tom Judge
Editor,
Rail Track &
Structures



See where I'm coming from. It takes vision to know what your customers want. Now Accenture has teamed with Avaya to provide leading-edge CRM solutions that do more than just connect customers, but help anticipate their needs. Whether it's phone, email or web, Avaya's intelligent voice and data technology and Accenture's visionary CRM expertise help you make the most of your investment. Let Avaya power your business to make every contact count. Visit avaya.com/learnmore.

accenture

AVAYA

>
facility, that's got to be pretty slick," said David Sisson.

"Well, I think on the CPG side, I've always admired Procter & Gamble, the way they've gone about things," said Richard Sherman. "I think Wal-Mart has done a better job of marketing their supply chain practices than they have necessarily done executing their supply chain practices. I think, Meijer, in Grand Rapids, Mich., is probably one of the best retailers I've seen at managing their overall supply chain and supplier base. Nabisco has always done a phenomenal job and now it's part of Kraft."

"Using J.D. Edwards Strategic Network Optimization, Otis Spunkmeyer can conduct longer-range capacity and production planning and look at data in multiple ways. Data input is much faster than before, and users can drill down to define and identify every part of the process, allowing for more in-depth analysis to be done more quickly."

— Kevin Tyschper, Manager, Production and Demand Planning, Otis Spunkmeyer

Tom Sanderson agrees that Wal-Mart and P&G have top-notch supply chains. "I think they both have a lot of opportunity to take it further and I think they both would acknowledge that they've got a lot of continuing area for improvement. I think if you arm mid-size companies with technology and a little bit of process improvement, combined with their own gung ho attitude, you'll see some mid-tier companies emerge as logistic leaders," Sanderson said. "I couldn't predict which one it would be. There are too many of them out there. But I think you'll see some real advancement in the mid-tier."

The best supply-chain practitioners never stop improving, said William Michael. "The guys who are good now aren't resting. They continue to push. They keep pushing. They're gaining.

They're good because they did certain things to improve and they're not relaxing from what I can see. One other example is Caterpillar on the parts side. I think Caterpillar has done an excellent job with their supply chain."

Future Vision

As you look ahead to the future, where do you see some of the major supply chain opportunities?

"Some of the supplier lead times are 40 days plus. So all this information we generate in real-time has the assumption that one, it's useful and that two, you can do something with it. You might know that an order is no longer required or that it's doubled in quantity, but if you've got 40-day lead times to your suppliers the information doesn't help you unless you can do something with it. So, it's broader than just having real-time information. That's why I keep getting back to flawless execution," said Herbert Klein. "What is really valuable is looking forward and using planning systems in real-time to determine order profitability. When taking an order, we should not only ask can I produce it, can I distribute it and can I store it, but also should I take the order. Will it be profitable? I've got three different transportation modes that I can use to get it to the end customer. Which one should I choose? If I need it no sooner than 10 days from now, why am I flying it there? Actual real-time order promising information enhances your business profitability rather than longer-term strategic decision making tools."

According to Bob Smith, "the market is also asking for something Harmony can deliver today...and third-party benchmarking. We realized some time ago that measuring internal operational performance, while valuable, is no longer enough. If you want to be a major player in this global economy

Business problem:

Otis Spunkmeyer, a leading baked goods company, in 1977 used spreadsheets and slow manual methods for forecasting and analysis. To support growth, they decided to improve business efficiencies and performance. They called for an evaluation of their methods. They decided to look for a low-cost product on planning tools that could handle the extensive number of SKUs, Store Keeping Units, and locations involved in planning analysis.

Planning and forecasting are directly related to optimization. The better you plan, the better your bottom numbers. We knew we needed to make a change to that vision, and we chose J.D. Edwards Advanced Planning software to help us bring that vision to reality," says Vani, Director, Network Planning, Otis Spunkmeyer.

Results:

Before implementing J.D. Edwards, Otis Spunkmeyer looked at production needs as far as three weeks ahead. With J.D. Edwards they extended the outlook to 72 weeks. The ability to look further ahead greatly enhanced forecast flow-rate accuracy, and reduced warehouse and production costs. By communicating a more accurate picture of needs to suppliers and brokers, Otis Spunkmeyer is able to make favorable purchasing agreements, deal with highly fluctuating prices such as bitter melon, and the company may also be able to minimize the fuel costs driven and save on fuel costs.

Ultimately, the J.D. Edwards solution provided the total for a Web-based system that provides real-time, current information about our needs and production frames. Suppliers could see what's best for the business and may be able to offer us better priced commodities," says Kevin Tyschper.

Solution:

Otis Spunkmeyer completed the first phase of implementation of J.D. Edwards Advanced Planning software during mid-2001 with the deployment of Strategic Network Optimization. They are currently using J.D. Edwards to optimize the complex distribution process. They will implement Strategic Network Optimization (SNO) alone solution, and we're using it now to perform production planning and view longer-term product," says Tyschper.

Implementation of J.D. Edwards Demand Planning is scheduled for first quarter 2002.

Learn more at www.lothair.com

bottlenecks

are only a good thing
if you manufacture bottles.

With flexible, scalable J.D. Edwards solutions and services for Supply Chain Management, your production and supply lines will run smoother. You'll be able to adapt to market conditions and consumer demands, reduce inventory and react more quickly. Is your company tech-proof? Call 1-800-260-2341 now to find out or register to use our exclusive Value Calculator at www.jdedwards.com/bottles


J D EDWARDS

> have to know how you stack up against the competition, where your organization excels and where you need to improve. And you need to know that information today, not tomorrow, not next week or next month. To gain competitive advantage in today's fast-paced economy, you need that data in real-time. Harmony offers a 'guidance system' for cost cutting, improved profitability and operational excellence. It's a dashboard that tells me a lot more than 'I'm running out of gas,' if we stick with that metaphor. It shows me where I accelerated too hard (maybe my spending is out of line?)...shows if I've purchased the wrong fuel (maybe my suppliers didn't deliver?)...predicts where this has put me on my business plan roadmap, and lets me quickly examine my options for navigating safely to meet or exceed my goals."

"In 1995, Corning chose PeopleSoft integrated enterprise systems. PeopleSoft HR and Finance systems are being deployed throughout the enterprise and managed centrally. PeopleSoft Purchasing and eProcurement form the basis for an emerging shared service Supplier Relationship Management initiative."

"I think the outsourcing industry is going to grow rapidly," Richard Sherman predicts. "The carriers are going to provide a lot more than just transportation services, which we're already seeing. It's also a given that the warehouse providers are going to provide more value-added services beyond warehousing than ever before. We're going to see lead logistics services providers or 4PLs emerge that will manage entire outsourced supply chains that include many service providers managed by the lead service provider."

To William Michael, the future means "driving days out of the supply chain, and that's huge! Days will be removed by improvements to key processing points...

closed trailer time compared to appointment time, trailer spotted at a customer's facility time to a call back of a Roadway empty, material arriving at deconsolidation terminal time to Roadway notifying customers that a trailer is ready for delivery time, etc., etc., etc.!"

Continued implementation of technology and use of the Internet are the keys to supply chain opportunity, said Tom Sanderson. "The subscription and transaction pricing model appeals to mid-size customers and large companies that are decentralized. A large company may have decentralized inbound freight management where all of their plants basically do their own thing. We allow them to push the technology out not only to dozens of plants, but also to hundreds or thousands of vendors. It's a very effective way to reach users and deploy technology in a large decentralized organization. We also target mid-tier manufacturers and retailers where the upfront investment expense has historically kept them from implementing this kind of technology. I don't think you could do it any other way than using the Internet."

According to Ned Ahearn, one of the hottest trends now is "driving new procurement arrangements which change total process cost and manufacturing allocations to achieve lower overall costs. We're going to see companies reassessing supplier relationships via procurement to really change manufacturing and distribution of goods. These innovations will force suppliers to

innovate, building on strong one-to-one relationships, that will drive smarter ways of doing things. It's not going to be the big exchanges, it's going to be the many-to-many. It's going to be the strong one-to-one relationships that will drive change. The bigger market places will adopt the changes as standards are developed." ■

Corning Incorporated Achieves Real-Time High Performance with PeopleSoft Supply Chain

Company: Established in 1851, Corning Incorporated creates leading-edge technologies for the fastest-growing markets of the world's economy. Corning manufactures optical fiber, cable and photonic products for the telecommunications industry; and high-performance displays and components for television, information technology and other communications-related industries. The company also uses advanced materials to manufacture products for scientific, semiconductor and environmental markets.

Situation: Each Business Unit must plan, execute and compete successfully and autonomously, while sharing the direction and ambitious global focus of the entire organization. "With this centralized/decentralized business model, Corning needs to find the optimal balance between achieving process excellence in each Business Unit, while leveraging commonality across the enterprise," says Beers, Director, Supply Chain Technology.

Goal: Corning aimed to standardize systems, minimize organizational complexity, and institute common human resource, finance, and procurement processes, while endowing each Business Unit with the superior supply chain processes required for high performance.

Process/Tools: In 1995, Corning chose PeopleSoft integrated enterprise systems to achieve this balance. PeopleSoft HR and Finance systems are being deployed throughout the enterprise and managed centrally. PeopleSoft Purchasing and eProcurement form the basis for an emerging shared service Supplier Relationship Management initiative. PeopleSoft Supply Chain Management systems are deployed after each production unit undergoes an extensive analysis of its supply chain processes and requirements. "Modularity and flexibility are very important," says Beers, "because we tailor the approach to the needs and resource capabilities of each business."

Results: "High performance at Corning requires the things of its Enterprise Systems Framework," explains Beers. "First, real-time interoperability. An example is requisition-to-pay cycle. It means hooking our central PeopleSoft procurement system with all of our decentralized PeopleSoft transaction systems for better supply management and lower procurement costs. Second, the right information at the right place at the right time. At Corning, we're starting to view real-time information as a natural extension of ourselves, to make the strategic supply chain decisions that save time and money, ensure customer satisfaction, and improve operations."

THERE'S NOTHING LIKE THE RUSH OF THE REAL-TIME ENTERPRISE.



PeopleSoft. For business in real-time.

The only suite of enterprise application software with Pure Internet Architecture.™

Connect people to business processes—instantly. No intermediaries. Dramatically lower costs. Unparalleled performance. This is the world of the real-time enterprise. This is what PeopleSoft can do for your business right now.

Learn more by visiting us at www.peoplesoft.com/real-time or call 1-888-773-8277.

Customer Relationship
Management

Supply Chain
Management

Financial Management

Human Capital
Management

Application
Infrastructure

PeopleSoft

© 2000 PeopleSoft, Inc. PeopleSoft is a registered trademark of PeopleSoft, Inc.



ILLUSTRATIONS BY DAVID PLUNKERT

Excessive pay,
corrupt analysts,
auditing games:
It all adds up to
capitalism's
biggest crisis
since the
trustbuster era.
What will it take
to restore the
public's faith in
the system?



HOW TO FIX CORPORATE GOVERNANCE

A disenchanted investor vows to vote in favor of every shareholder resolution he can find. An angry employee says she feels betrayed by bosses who have grown rich on stock options while putting the squeeze on health benefits and salaries. A dealmaker, trying to close a sale, hears yet another buyer grouse: "Who's to say this guy isn't lying about the numbers like everyone else?"

Faith in Corporate America hasn't been so strained since the early 1900s, when the public's furor over the monopoly powers of big business led to years of trustbusting by Theodore Roosevelt. The latest wave of skepticism may have started with Enron Corp.'s ugly demise, but with each revelation of corporate excess or wrongdoing, the goodwill built up by business during the boom of the past decade has

eroded a little more, giving way to widespread suspicion and mistrust. An unrelenting barrage of headlines that tell of Securities & Exchange Commission investigations, indictments, guilty pleas, government settlements, financial restatements, and fines has only lent greater credence to the belief that the system is inherently unfair.

Some corporate chieftains claim that the backlash is overblown, a form of "corporate McCarthyism," in the words of Joseph P. Nacchio, head of Qwest Communications, which is one of dozens of companies under investigation by the SEC for questionable accounting. But increasingly, the public perception is that too many corporate executives have com-

Special Report

mitted egregious breaches of trust by cooking the books, shading the truth, and enriching themselves with huge stock-option profits while shareholders suffered breathtaking losses. Meanwhile, despite a decade or more of boardroom reforms, many directors seem to have become either passive or conflicted players in this morality play, unwilling to question or follow up on even the most routine issues. If the governance of the modern corporation isn't completely broken, it is going through a severe crisis of confidence.

The sight of Enron employees tearfully testifying before Congress was a watershed moment in American capitalism. They painted a picture of betrayal by company leaders that left them holding huge losses in their pension plans. Enron added to the sense that no matter how serious their failure or how imperiled the corporation, those in charge always seem to walk away vastly enriched, while employees and shareholders are left to suffer the consequences of the top managers' inaptitude or malfeasance.

In many ways, Enron and its dealings with Arthur Andersen are an anomaly, a perfect storm where greed, lax oversight, and outright fraud

ACCOUNTING

"When the SEC and the Justice Dept. get their act together and start sending some CFOs and CEOs to jail, you'll see a real wake-up call"

Unchecked, that rising bitterness and distrust could prove costly to business and to society. At risk is the very integrity of capitalism. If investors continue to lose faith in corporations, they could choke off access to capital, the fuel that has powered America's record of innovation and economic leadership. The loss of trust threatens our ability to create new jobs and reignite the economy. It also leaves a taint on the majority of executives and corporations who act with integrity. Directors who fail to direct and CEOs who fail at moral leadership are arguably the most serious challenge facing Corporate America today.

More than a half-century ago, Columbia University professors Adolf A. Berle and Gardiner C. Means made clear the divergence between the owners of the corporation and professional managers hired to run it. They warned that widely dispersed ownership "released management from overriding requirement that it serve stockholders." A

Special Report

combined to unravel two of the nation's largest companies. But a certain moral laxity has come to pervade even the bluest of the blue chips. When IBM used \$290 million from the sale of a business three days before the end of its fourth quarter last year to help it beat Wall Street's profit forecast, it did what was perfectly legal—and yet entirely misleading. That one-time undisclosed gain, used to lower operating costs, had nothing to do with the company's underlying operating performance. Such distortions have become commonplace, as companies strive to hit a target even at the cost of clarity and fairness.

The inevitable result is growing outrage among corporate stakeholders. "I feel thoroughly disillusioned and disgusted," complains Eugene J. Becker, a small investor living near Baltimore. "These people cannot police themselves. Greed is their driver. It's time for stockholders to start showing their disillusionment in tangible ways." This year, for the first time, Becker is casting "no" votes against management at the eight public companies in which he is a shareholder.

ERODING CONFIDENCE



JAN. 10, 2000 AOL buys Time Warner in a deal worth \$183 billion—which later results in a \$54 billion write-off, the largest ever.



MAR. 10, 2000 The NASDAQ reaches 5048.6, the height of the high-tech bubble. It is now 1713.

JANUARY, 2001 Oracle CEO Larry Ellison exercises 23 million stock options for a record gain of more than \$706 million—weeks before lowering earnings forecasts.



FEBRUARY, 2001 Arthur Levitt Jr. leaves as head of the SEC after business lobbyists kill his plan to prohibit auditing firms from consulting for clients.



MAY, 2001 Arthur Andersen agrees to pay \$110 million to settle a shareholders suit alleging fraud in its audit of Sunbeam.



AUGUST, 2001 Harvey Pitt, a Washington lawyer who had represented auditors and corporations, often in front of the SEC, succeeds Levitt.



In doing so, it becomes a national symbol of business corruption and greed.

JAN. 11, 2002 Al DuPont agrees to pay \$15 million to settle a lawsuit from Sunbeam shareholders alleging



DEC. 2, 2001 Enron, the largest corporate bankruptcy in U.S. history.

cooking the books to make small applications.





ony of the boom era is that after years of lavish stock-option rewards meant to remedy the problem, this divergence is more extreme than ever. The senior executives of public corporations today are often among the largest individual owners of those enterprises, and board members are far more likely to have major equity stakes as well.

In theory, this ownership was supposed to align the interests of management and directors with those of shareholders. The law of unintended consequences, however, took hold.

Whether through actual stock ownership or option grants, many executives and directors realized that their personal wealth was so closely tied to the price of the company stock that maintaining the share price became the highest corporate value. Investors rode the boom along with management, leading to the “irrational exuberance” of the late 1990s.

But there was a dark side to runaway stock prices. As the market overheated, it became less and less tolerant of even the slightest whiff of bad news—rumors of which could wipe out hundreds of millions of dollars of market value at a stroke. “Through the 1980s and 1990s, we constructed an architecture that emphasized reporting good news, to the point where CEOs and CFOs could not be frank with the investment community,” says Anita M. McGahan, a Boston University business professor. “Many of these companies needed a course correction. But the stakes in admitting problems were very high, both because the market overvalued their stock and because of executive pay.”

The tyranny of the daily stock price has led to borderline accounting and in some cases, outright fraud. And why not, when every upward tick of the stock means massive gains for option-rich executives? "Excessive CEO pay is the mad-cow disease of American boardrooms," says J. Richard Finlay, chairman of Canada's Center for Corporate & Public Governance. "It moves from company to company, rendering directors incapable of applying common sense."

A study by Finlay shows that many boards devote far more time and energy to compensation than to assuring the integrity of the company's financial reporting systems. At Oracle Corp., where CEO Laurence J. Ellison's exercise of stock options just before the company issued an earnings warning led to a record \$706.1 million payout last year, the full board met on only five occasions and acted by written consent three times. The compensation committee, by contrast, acted 24 times in formal session or by written consent. "Too many boards are composed of current and former CEOs who have a vested interest in maintaining a system that is beneficial to them," says Finlay. "If you look at the disconnect between audit and compensation committees, you begin to understand how misplaced the priorities of many boards are."

Enron's implosion is the most visible manifestation of a sys-

EDIT **SSSE** GROUP

2, 2002 Credit
First Boston agrees to \$100 million in fines to settle charges that brokers altered shares in initial public offerings to certain investors and arrange for outside commissions on other trades.

JAN. 28, 2002
Global Crossing,
once a high-flying
telecom-service
company, files for Chapter
11, the preceding three
years the company's insid-
ers had cashed in \$1.3 bil-
lion of stock.

JAN. 29, 2002 Tyco International discloses that it paid a director \$10 million in cash and gave a further \$10 million to his favorite charity in exchange for his help on an acquisition.



FEB. 7, 2002 Enron Audit Committee Chairman Robert Jaedicke (above right) claims that management failed to disclose critical information to the board.

MAR. 14, 2002 A federal grand jury indicts auditor Arthur Andersen on charges of ujustice.



obstruction of justice.

APR. 1, 2002 Xerox agrees to pay a \$10 million SEC fine to settle charges that it engaged in fraudulent accounting practices.



APR. 8, 2002 The New York State Attorney General charges that Merrill Lynch analysts were privately referring to certain stocks as "crap" and "junk" while publicly recommending them to investors.

APR. 9, 2002 Arthur Andersen partner David Duncan pleads guilty to charges of obstructing justice in the Enron case.



tem in crisis. Self-interested executives gorged with stock-option wealth, conflicted outside advisers, and a shockingly uninvolved board: Rarely has a total breakdown in corporate governance been so clearly documented—and oddly enough, by other directors, in a report filed by William C. Powers Jr., an Enron board member.

Special Report

He and his colleagues found an almost total collapse in board oversight. The Powers report concluded that the board's controls were inadequate, that its committees carried out reviews "only in a cursory way," and that the board failed to appreciate "the significance of some of the specific information that came before it." That is as complete a definition of "asleep at the wheel" as you'll ever find.

With many directors lulled into complacency by climbing stock prices and their own increasing wealth, all too often the last vestige of internal control was lost. "There was this convergence of self-interest," says Edward E. Lawler III, director of the Center for Effective Organizations at the University of Southern California. "They were all doing well, and nobody wanted to rock the boat. With the escalation in board compensation through stock options, directors were the last people to the feeding trough. Once they got tied in, there was really no restraining force."

It's not just the corporation that is at fault. Many of the corporation's outside professionals fell prey to greed and self-interest as well, from Wall Street analysts and investment bankers to auditors and lawyers and even regulators and lawmakers. These players, who are supposed to pro-

than a single initiative or two. The breakdown has been systemic and far-reaching that it will require major reforms in a number of critical areas. Here's where to start:

EXECUTIVE PAY

As a matter of basic fairness, Plato posited that no one in a community should earn more than five times the wages of the ordinary worker. Management guru Peter F. Drucker has long warned that the growing pay gap between CEOs and workers could threaten the very credibility of leadership. He argued in the mid-1980s that no leader should earn more than 10 times the company's lowest-paid employee. His reasoning: If a CEO took too large a share of the rewards, it would make the compensation a mockery of the contribution of all the other employees in a successful organization.

After massive increases in compensation, Drucker's suggested standard looks quaint. CEOs of large corporations last year made 411 times as much as the average factory worker. In the past decade, as raw and file wages increased 30%, CEO pay climbed 340%, to \$8 million. "It's just way off the charts," says Jennifer Ladd, a shareholder who is fighting for lower executive pay at companies in her portfolio. "A certain amount of wealth is ridiculous after a while."

Oddly enough, CEOs can command such vast wealth through the abuse of a financial instrument once viewed as a symbol of enlightened governance: the humble stock option. Throughout the 1990s, governance experts applauded the use of options, maintaining that they would give executives a big payday only when shareholders profited.



CEO PAY

During the past two years, as the market cratered, executives went right on raking in the dough—as nearly 200 companies swapped or repriced their stock options

vide the crucial checks and balances in a system that favors unfettered capitalism, have in many cases been compromised.

Many analysts urged investors to buy shares in companies solely because their investment banker colleagues could reap big fees for handling underwriting and merger business. Far too many auditors responsible for certifying the accuracy of a company's accounts looked the other way so their firms could rake in millions from audit fees and millions more from higher-margin consulting work. Some outside lawyers invented justifications for less-than-pristine practices to win a bigger cut of the legal fees. Far too often, CEOs found they could buy all the influence they wanted or needed. Enron managed to help write energy policy in the Bush Administration, while the Business Roundtable and Silicon Valley combined to derail efforts to change the accounting treatment for stock options.

Ending the crisis in Corporate America will take more

And for a while, as the bull market ran its course, that's the way it worked. But as the market cratered during the past two years, a funny thing happened: Shareholders lost their shirts, but executives went right on raking in the dough.

In recent months, especially, shareholder anger has boiled over, as company proxies disclosed the many ways compensation committees subverted pay for performance. There is, of course, a fundamental difference between investors who have their own money at risk in the market and option holders, who do not. But companies have gone even further to shield top executives from losses in a falling market. Some awarded huge option grants despite poor performance, while others made performance goals easier to reach. Nearly 200 companies swapped or repriced options—all to enrich members of a corporate elite who already were among the world's wealthiest people.

When CEOs can clear \$1 billion during their tenures, executives

WHEN NEARLY HALF THE FORTUNE® 1000 ARE YOUR CLIENTS, YOU TEND TO STAND OUT.

When leading companies need a wireless partner to keep things moving, they turn to us. With over 20 million subscribers nationwide, it's no wonder that businesses rely on Cingular to provide services such as business calling plans, corporate e-mail, interactive messaging, and CRM solutions. Maybe it's

time you noticed the shape business is taking to express itself. Give us a call at 1-866-281-7551, or visit us on the internet at www.cingular.com/business. Also, feel free to download our "orange" paper, *Executive Guide to Enterprise-Wide Wireless Data Strategies*, when you visit our website.



tive pay is clearly too high. Worse still, the system is not providing an incentive for outstanding performance. It should be a basic tenet of corporate governance never to reprice or swap a stock option that is under water. After all, no company would hand out free shares to stockholders to make them whole in a falling market.

Special Report

panies to expense options. If every option represented a direct hit to the bottom line, boards would be less inclined to dole them out by the millions. Determining the value of an option for accounting purposes is no slam-dunk. It may be that companies should mark-to-market all or a portion of the actual gains or losses in vested stock options every year. At the very least, Congress should provide preferential tax treatment to encourage boards to replace their plain-vanilla option grants, which reward CEOs if the stock rises, with indexed options, which provide a payday only when the stock appreciation outstrips that of peer companies.

THE BOARD

When Enron collapsed, many pointed an accusing finger at the board, and rightly so. Rarely has there been a management team so intent on deception or a group of directors so sound asleep. But accountability is a two-way street. It's not enough that the board keep a watchful eye on management. Just as important, the shareholders must keep an eye on the board.

That's difficult to do. Shareholders aren't invited to board meetings, individual board members rarely speak out, and when they do it's usually to trumpet the company line. The fact is investors know practically nothing of what goes on behind the closed doors of the boardroom. They must instead rely on directors to represent their interests vigorously. To make sure that happens, changes are badly needed.

In recent weeks, Congress, the White House, federal regulators, and the stock exchanges have all proposed reforms, including some that would require CEOs to vouch for the accuracy of company disclosures and disgorge personal profits from corporate wrongdoing. But the reforms would not guarantee the thing in greatest demand and shortest supply: accountability of all directors. "They're not going far enough," says Peter C. Clapman, chief counsel for

To really fix the problem, Congress needs to require companies

TIAA-CREF, the world's largest pension system. "They're underestimating the total needs of a better corporate governance system."

To ensure accountability, shareholder resolutions that are passed by a majority of the shares voted for three consecutive years should be binding. Today when a resolution passes, it is frequently ignored. At Bristol-Myers Squibb Co., for example, a proposal to hold annual elections for directors has won a majority of votes cast for five straight years. But the company has never acted on it, claiming that it failed to get a majority of all the shares outstanding. Making resolutions binding would make companies profoundly answerable to shareholders.

In addition, the stock exchanges, which set many of the governance rules companies must follow, should come up with meaningful regulations and enforce them. At a minimum, the exchanges should limit every board to no more than two directors, require every board to appoint a lead director who can convene the board without the CEO, assign only independent outsiders to the audit, compensation, and nominating committees, and restrict directors from serving on more than three boards. Companies such as Disney have begun making such changes.

Other reforms could help to make boards more inclined to act ahead of a crisis. A ban on stock sales by directors during the duration of their terms would encourage them to blow the whistle on management when necessary without fearing the short-term price declines that may follow. Mandatory term limits—requiring directors to resign after 10 years or at age 70, whichever comes first—would prevent board members from becoming entrenched.

Even more important, the stock exchanges should require every board to conduct an extensive annual self-evaluation involving both a review of board policies and an anonymous appraisal of individual directors. Some boards, including Kmart, Campbell Soup, and Occidental Petroleum, already do a version of this, but they need to go further. The findings need to be made public, and every three years each board member with the lowest ratings should be required to resign. Tough medicine, but a bruised ego is a small price to pay for better governance.



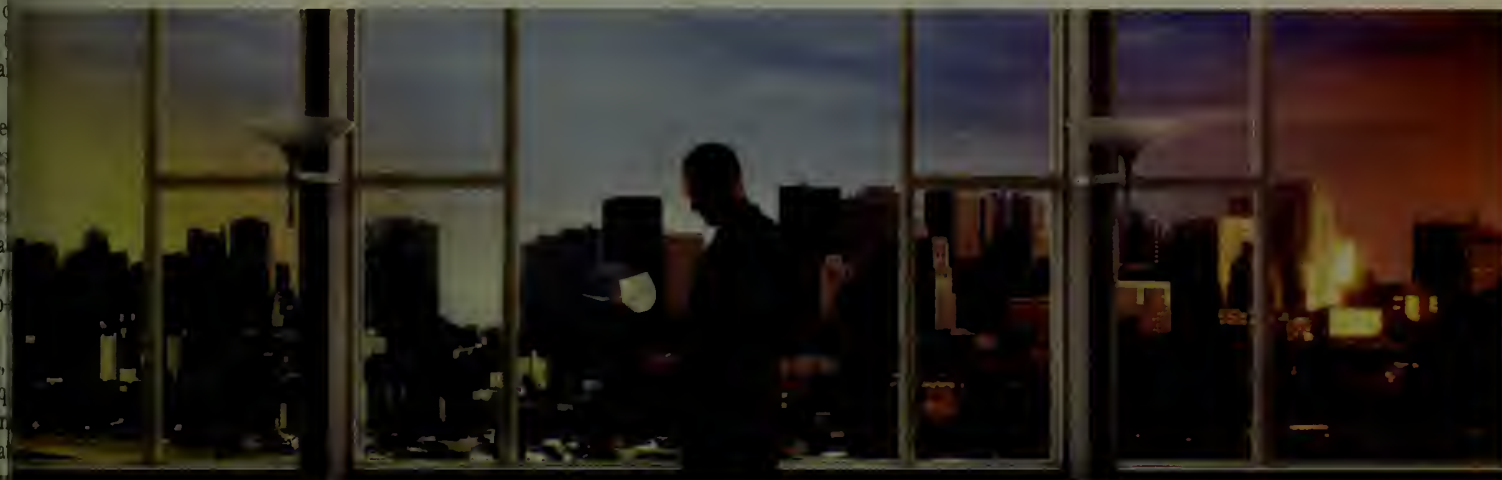
ACCOUNTING

The past few months have pointed up so many weak spots in corporate accounting that it's hard to prioritize what needs fixing the most. Clearly, auditors are not always skeptical enough. Obviously, board audit committees need a kick in the pants

THE BOARD

A ban on stock sales by directors for the duration of their terms would encourage them to blow the whistle on management when necessary

At the beginning of the day, it's all about possibilities.



At the end of the day, it's all about results.

And everything in between is about
how we can help you get there.

Asset Management

Institutional Asset Management

Mutual Funds

Private Wealth Management

Corporate and Institutional Services

Asset Servicing

Human Resources Services

Treasury Services



Mellon

The difference is measurable.™

Everyone agrees that rule-making needs to become a lot faster and a lot more effective.

But the deepest problem uncovered by the spate of recent accounting scandals is how easy it has been for all the players involved to pass the buck. The board fingers management,

Special Report

management, management blames the auditor, the auditor blames the rules. Why isn't it clear who's responsible for what and what the penalties are for doing a bad job?

There are steps that would help restore investor confidence. First, there should be limits put on consulting work done by a company's auditing firm. The audit panel should review all nonaudit engagements to ensure that they don't jeopardize the audit. Auditors should rotate every few years to ensure a "fresh look" by a new firm. There should be more forensic auditing to dig behind the journal entries.

Finally, the proxy statement should clearly delineate which responsibilities fall to the board and which to management. At Enron, the audit committee was charged with reviewing related party transactions. In fact, the committee carried out only cursory reviews. But shareholders had no way of knowing it was even part of their duties. By contrast, Cendant Corp., in the wake of an accounting fraud in a predecessor company, takes extra care to spell out board responsibilities. For example, it makes clear that the board has reviewed and approved the nonaudit work provided by auditors. But Cendant is the exception.

An expanded auditor state-

ment, management blames the auditor, the auditor blames the rules. Why isn't it

together and start sending some CFOs and CEOs to jail, you see a real wake-up call."

ANALYSTS

If investors have learned anything from this crisis, it's Wall Street's analysts are often loath to put a bad spin on stock. Historically, "sell" ratings have constituted fewer than 1% of analysts' recommendations, according to Thomson Financial/First Call. It's not that analysts have had "an ethical bypass at birth," as was said of Gordon Gekko in the movie *Wall Street*. It's more a case of an inherently conflicted system that is now the focus of a Justice Department investigation.

Analysts are often rewarded for their ability to attract and maintain investment banking business. They're often under pressure from the companies they cover, big institutional investors, and their own employers to maintain positive ratings. These are conflicts that may never be resolved. There are some steps that could alleviate the pressure that prevent analysts from telling the truth.

First, education is paramount. "Investors need to realize that the free research they're getting is often just a marketing tool," says Ken Womack, a professor at DePaul University's Amos T. School of Business. Better disclosure also could help. It should be mandatory that firms prominently disclose their specific investment banking relationship with the company it's covering.

And an overhaul of the language of ratings would be helpful as well. In non-English, most ratings sound like variations on "we think



THE ANALYSTS

Most stock-rating

terms are part of an elaborate web of euphemisms. "Neutral," for example, means "dump this loser, and run for your life"

ment in the annual report would also help. Instead of just asserting that the financials meet generally accepted accounting principles, the auditors' statement should illuminate just where in the wide range of acceptable practices a particular company falls. As an up-close reviewer of the numbers, the auditor is in a unique position to judge how dependent the financial statements are on assumptions that could prove faulty. They already share this information with the audit committee. Including it in the auditors' statement would give investors access to the same insight.

Finally, a price must be exacted for failure to do the right thing. "We had Sunbeam, Waste Management, and Cendant—and I don't think anybody has gone to jail yet, and I don't know why," says Philip B. Livingston, president of Financial Executives International, a professional group of finance managers. "When the SEC and the Justice Dept. get their act

this is a decent stock that you should own." In ratings language, terms such as "accumulate" and "hold" are part of an elaborate web of euphemisms in which "neutral" means "dump this loser, and run for your life." And it would make sense if analysts used the same terms.

To help restore analysts' integrity, their compensation should not be dependent on investment banking fees earned from the companies they cover. At the least, that conflict should be disclosed. Two prominent securities-industry trade groups have recommended that analysts be paid on stock-picking and earnings-estimate prowess, a practice some firms are adopting. Some groups have already barred analysts from owning stock that they cover.

The SEC may soon approve some of these changes. So even the best regulation can't make analysts completely unbiased. A healthy skepticism and a willingness to look bey

TODAY

Support innovative family literacy program

TOMORROW

Publish more success stories

TOYOTA



Sometimes it takes a great idea to give power to good intentions. We think the National Center for Family Literacy is a great idea, and that's why Toyota is proud to be one of its major supporters.

NCFL is the leader in parent-child learning. It's a powerful way to develop learning skills in young children by helping disadvantaged parents complete their own education and learn important life skills at the same time.

Toyota has provided support to more than 150 family literacy programs across America. By supporting NCFL, we hope that the book on missed opportunities will one day be closed forever.

To learn more about the great work of NCFL, visit www.familit.org.

www.toyota.com/tomorrow

retail analysis when choosing stocks may be the best bet of all. Says James Grant, publisher of *Grant's Interest Rate Observer*: "These days, the newsstands are thick with publications that are more inclined to search rather than cheer."

Special Report

REGULATORS

Business abuses have raised fresh concerns about the power and influence of Corporate America over elected officials and policymakers in Washington. From Enron's cozy ties to energy policy mandarins to the ease with which the accounting industry defeated a proposal to sever their consulting operations from audit in 2000, there's plenty of evidence that regulators often are outgunned or co-opted by special interests. It's not surprising, then, that a mid-February Harris Poll found that 87% of American adults thought big companies wielded too much clout in the nation's capital.

Since politicians depend on money from private interests to fund their campaigns, there's not much that can be done to reduce radically the influence industry holds over regulators. But some small steps could make a difference. For starters: more transparency in regulatory decision-making. At the SEC, for example, some key decisions are deliberately relegated to staff, which can meet in private, unlike the commissioners. More of the agency's business should be out in the open.

SEC Chairman Harvey L. Pitt's "two strikes and you're out" proposal for corporate bigwigs is also on the right track. He wants the power to ban corporate miscreants from serving as officers and directors. But the proposal's effectiveness hinges on the fine print. If it applies only to those convicted of financial crimes, it could be meaningless, since the SEC settles most cases.

Without adequate funding, though, the financial cops won't be able to police their beat. The SEC's workload has soared even as staffing has remained stagnant. Congress should approve a hefty increase in the agency's budget, including Pitt's request for pay parity to retain top lawyers and accountants. Likewise, lawmakers should require accounting firms to pony up annually to fund the Financial Accounting Standards Board instead of forcing the rulemakers to go hat-in-hand to the firms they joust with.

Otherwise, to quote Gekko, "you're walking around blind without a cane, pal."

LEADERSHIP

As the 1990s unfolded, Enron came to represent the triumph of New Economy thinking over Old Economy principles. It was fast, adaptive, innovative, and profitable—a corporate culture perfectly suited to what it did: creating and exploiting new markets. Everyone envied and emulated Enron.

While Enron's culture emphasized risk-taking and entrepreneurial thinking, it also valued personal ambition, teamwork, youth over wisdom, and earnings growth at any cost. What's more, the very ideas Enron embraced were disrupted in their execution. Risk-taking without oversight resulted in failures. Youth without supervision resulted in chaos. And an almost unrelenting emphasis on earnings, without a system of checks and balances, resulted in ethical lapses that ultimately led to the company's downfall. While Enron is the extreme case, many other companies show the same symptoms.

If the challenge for executives in the 1990s was to transform corporate behemoths into nimble competitors, the challenge in coming years will be to create corporate cultures that encourage and reward integrity as much as creativity and entrepreneurship. To do that, executives need to start at the top, becoming not only exemplary managers but also the moral compass for the company. CEOs must set the tone by publically embracing the organization's values. How? They need to be forthright in taking responsibility for shortcomings, whether earnings shortfall, product failure, or a flawed strategy. They show zero tolerance for those who fail to do the same.

The best insurance against crossing the ethical divide is a roomful of skeptics. CEOs must actively encourage dissent among senior managers by flattening decision-making processes, reporting relationships, and incentives that encourage opposing viewpoints. At too many companies, the performance review system encourages a "yes-man culture" that subverts the organization's checks and balances. By advocating dissent, top executives can create a climate where wrongdoing will not go unchallenged.

None of these proposals guarantee that another Enron, Cendant, or Sunbeam will ever surface. No one can legislate or mandate ethical behavior. But leadership must create an environment where honesty and fairness is paramount. Integrity is to be the foundation for competitiveness, it begins at the top.

By John A. Byrne, Louis Lavelle, Nanette Byrne and Marcia Vickers in New York and Amy Borrus in Washington



THE CULTURE

In the future, a CEO must set the company's moral tone—by being forthright, for starters, and by taking responsibility for any shortcomings



**In a perfect world,
there would be no accidents.**



GENERAL LIABILITY



COMMERCIAL AUTO



PROPERTY



WORKERS COMP

Of course, we know better. And as long as there are accidents out there, we'll do everything we can to help reduce them. It's an obsession that's led to the creation of our own safety research center, the only one of its kind. Since 1954, the Liberty Mutual Research Center for Safety and Health has studied accidents with one overriding goal: helping prevent injury and illness in the workplace. Today, it's regarded as one of the world's foremost safety authorities. But more importantly, the center's findings have helped us achieve some impressive numbers for our customers: in one year alone, we saved them nearly 750,000 disability days and helped reduce their number of claims by 20%. Just a few examples of what our proactive approach to loss prevention can achieve. Because the world may never be perfect. But we can certainly help make its workplaces safer.

IT'S MORE THAN INSURANCE. IT'S INSURANCE IN ACTION.

For more information on how to help make your workplace safer,
visit www.libertymutual.com or call 1-800-4-LIBERTY.



**Liberty
Mutual.**

THE CORPORATE CLEANUP GOES GLOBAL

But not all reforms will follow the U.S. model

For decades, U.S. executives and powerful fund managers have lectured the Europeans and Japanese about the need to run their corporations according to the transparent U.S. model. Now come the Enron and Arthur Andersen scandals, together with less sordid disclosures about questionable accounting practices at dot-coms, telecoms, and even blue chips such as General Electric and IBM. Shareholder deception, supine boards, and Special Purpose Entities seem to have rendered the U.S. corporate governance model a Swiss cheese of loopholes.

Special Report

With the benchmark looking so rotten, will reform around the world stop

dead in its tracks? Don't count on it. If anything, the trend to adopt U.S.-style accountability standards is stronger—one result of globalization and the stampede to U.S. markets by investors looking for decent returns. "People are not suddenly saying the U.S. system is all bad and we should be like the Japanese," says Marco Becht, a German economist and executive director of the European Corporate Governance Institute in Brussels. "Enron is helpful in making people realize that even more improvements are needed."

But rather than a convergence to the U.S. model, Becht and others see multiple modes of corporate governance developing around the world. "Just as you don't expect all countries to adopt the U.S. Constitution, you are going to have different corporate governance systems," says Becht. Already, British reforms look quite different from American ones. British boards of directors, for example, cannot use "poison pill" defenses to block hostile takeovers. And that is just one element of a formal code of governance adopted by the British in early 2000. Curiously, the U.S. is one of the few industrialized countries without such a rule book.

Just about everywhere, the battle cry is for more transparency in accounting and greater checks and balances

between management and boards of directors. And U.S. scandals are not the only driver of change. Both Europe and Asia have their own crop of homegrown disasters. In Europe, the clubby, incestuous world of Switzerland Inc. was rocked by the collapse of Swissair in

October, 2001, while mighty financial institutions such as Zurich Financial Services have been reeling from a series of mishaps that critics relate directly to the unchecked power of their executives and their indifference to shareholder rights. Scandinavian corporate practices have been under the microscope ever since it was disclosed that Swiss-Swedish engineering giant ABB secretly granted former Chairman CEO Percy Barnevik an \$89 million golden handshake. And Germany, a series of corporate collapses—most recently the implosion of the Kirch media empire—is finally shaking outdated German practices.

Indeed, the changes afoot in Germany promise to transform the face of Rhineland-style capitalism, with its traditional once-a-year earnings reports and interlocking board memberships. Under proposals submitted in February by a government committee led by Gerhard Cromme, former CEO of ThyssenKrupp, listed companies would adopt a wide range

THE PUSH FOR ACCOUNTABILITY

Around the world, investors are demanding change

Data: BusinessWeek

GERMANY

Under proposals of the 2001 Cromme Commission, listed German companies are urged to set up independent audit committees. Large companies such as Schering are switching to International Accounting Standards.

FRANCE

French companies including TotalFinaElf and Saint-Gobain are appointing independent directors and separating duties of chairmen and CEOs based on proposals of the Vienot Report.



REFORM American scandals aren't the only drivers of change—Europe and Asia have plenty of homegrown disasters

forms, including abolition of separate share classes, publication of management salaries, and disclosure of inside trading by board members. While most of the Cromme Commission's provisions are voluntary, commission member Peer M. Schatz, CFO of Qiagen, a Dutch biotech company listed on Frankfurt's Neuer Markt, says all German companies will be affected. "The market will ultimately have much more leverage than any legal body," says Schatz. "To be in noncompliance when you said you would comply leads to the worst punishment possible, namely loss of credibility."

In Japan—long notorious for corporate abuse of shareholders, cozy ties between banks and companies, and opaque

accounting—things are also moving, albeit slowly. The Justice Ministry is pushing legislation that would amend the commercial code by allowing appointment of independent members of boards of directors—a real innovation, since most Japanese corporations have boards composed almost solely of senior executives. The new code also allows companies to let shareholders vote online, an innovation Sony Corp., Hitachi Ltd., and 50 others say they'll adopt during this year's annual meeting season. Still, a recent survey by communications group Dentsu Inc. of 1,000 international investors who trade Japanese equities found that corporate transparency is perceived to be far worse in Japan than in Europe and the U.S.

Next door in South Korea, reform has been spurred by the July, 1999, collapse of Daewoo Group, whose founder and chairman, Kim Woo Choong, now in hiding to avoid prosecution on fraud charges, had allegedly engaged in accounting so creative that it falsely inflated the value of the conglomerate by \$30 billion. That shock led to a recent overhaul of Korean commercial codes, which now require, among other things, that large listed companies fill at least half of their board seats with outside directors. The codes also allow any individual or group with a combined holding of just 0.01% of outstanding shares to sue management over any perceived irregularities.

Other emerging markets are making important strides. Take Russia, once one of the world's murkiest corporate swamps. At energy giant Gazprom, Russia's largest company with sales of \$20 billion in 2001, a new team led by CEO Alexei Miller is undertaking a series of reforms, including establishment of a board-level audit committee. With its accountant, PricewaterhouseCoopers, being sued for lax auditing, Gazprom is holding an unusual tender to choose an auditor by competitive bid. "Corporate governance at Gazprom is

definitely improving—it isn't just window dressing," says Stephen O'Sullivan, head of research at Moscow brokerage United Financial Group.

Of course, the new strictures, in Russia and elsewhere, will not stop those determined to deceive and defraud, any more than they did in the U.S. The Cromme Commission's rules, says Schatz, "won't prevent outright criminal activity. If you rob a bank, you don't ask which rules you're not complying with." But to inspire better behavior, you first need actual rules to enforce. Those rules are falling into place.

By John Rossant in Paris, with Jack Ewing in Frankfurt, Brian Bremner in Tokyo, and bureaus reports

ITALY

Government rules attack old system of corporate control exercised through companies, or "Chinese walls." Even secretive companies like Mediobanca are adopting new principles.

SCANDINAVIA

In 2001, telecom-equipment giant Nokia adopts one-share-one-vote rule and elects a majority of independent, non-Finnish members to its board. But in Sweden, reform has been slow.

HONG KONG

Stringent new measures to promote corporate transparency are adopted by government in April. For the first time, certain types of financial wrongdoing, such as insider trading, become criminal offenses.

JAPAN

In 2001, the Diet amends the commercial code, giving corporations the choice of adopting U.S.-style corporate practices such as independent audit and compensation committees.

FINANCING

A SLIPPERY SLOPE MADE OF PLASTIC

Is Sears relying too heavily on its credit-card business?

Sears, Roebuck & Co.'s core business peddling appliances, tools, and clothing has always gotten a big boost from the company's credit-card arm. These days, though, those old favorites aren't much more than a sideline—the venerable Chicago retailer is essentially a finance company. Last year, its finance arm brought in nearly 70% of the \$2.3 billion in operating income, up from 58% in 1999.

Sears' reliance on lending to offset sagging merchandise sales is sure to keep growing. Chief Executive Alan J. Lacy pushed hard to develop the business even before taking the top post in 2000. As chief financial officer, he rolled out the Sears MasterCard to tap income from purchases at other merchants. Now, the company has 22 million MasterCard accounts, making it the 13th-largest issuer. Lacy's latest move is to charge Sears store card customers variable rates. The already lofty 21.9% fixed rate is going up to prime rate plus 17.15% in July. So, when interest rates pick up, the business will be as profitable as ever.

The stock market loves it. Lacy's financial bent coupled with a focus on cost-cutting has helped boost Sears

stock 60% in the past 12 months, to \$53 on Apr. 24. Never mind that revenues from Sears' retail business dropped 1.4% in the first quarter of the year—revenues from the finance division were up 26%.

But the rapid growth in its credit-card lending, particularly to low-to-mid-

dle-income customers, is raising red flags. Sears is aggressively expanding its credit-card lines when merchants are cutting back. "Many companies serving a similar customer base have gotten themselves into trouble," says William Ryan, an analyst with Veritas Capital, an independent research firm. Metris Cos. and Provident Financial Corp. were forced by the Office of the Comptroller of the Currency to cut credit-card lending after posting higher-than-expected losses. Sears Credit Services President Kevin T. Keleghan says that customers are more creditworthy. He points to Sears' low charge-off rate of 5.43% of receivables, compared with the industry average of about 6.5%. "We have the lowest write-offs in the industry right now," he says.

It's not quite that simple. Sears extends credit through an Arizona-based bank subsidiary but transfers accounts to its parent. So neither the OCC nor the Federal Reserve regulate the whole company. Sears waits until loans are 240 days late before writing them off; for most banks the cutoff is 180 days. Keleghan says that by waiting longer, Sears recovers more losses.

Still, investors may want to be wary. The last time Sears stepped on the credit pedal, under former CEO Arthur C. Martinez, the results were a disaster. He nearly doubled the rate at which Sears issued its own store cards in the mid-'90s, hurting sales. But debt began to soar by 1996, hurting earnings in 1997 and 1998. Martinez appointed Lacy to clean up the mess.

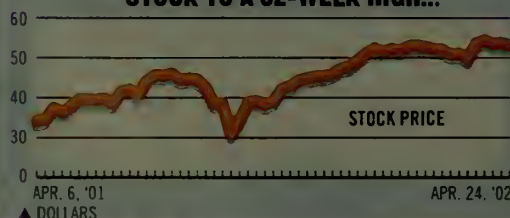
Now, Lacy is applying the gas. Although the MasterCard carries a lower rate than the Sears store card, it aims to make up for it by encouraging customers to borrow more. The tactic seems to be working.

SEARS

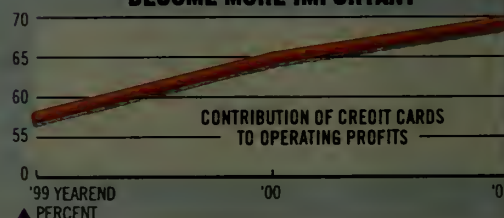


CATALOGING SEARS

INVESTORS HAVE DRIVEN ITS
STOCK TO A 52-WEEK HIGH...



...AS CREDIT-CARD EARNINGS
BECOME MORE IMPORTANT



first quarter, MasterCard receives more than tripled from a year to \$6.3 billion. Outstanding credit jumped 30%, to \$250 billion.

But the MasterCard gains are cannibalizing store cards, where receivables fell by 14.7%. Lacy is trying to offset the drop by tacking on fees as well as raising rates. Last July, Sears upped the rate on its store card to 21.9% as the others cut rates. This summer, Sears will offer cash advances, a novelty for store cards, and charge 18.15% above prime. High rates lead some to suspect Sears is lending to risky borrowers who might get credit elsewhere. Sears says customers are attracted by discounts on merchandise, but skeptics question that. Customers must feel that the people they see on that card are a captive market it might as well milk them as hard as possible," says David A. Wyss, chief economist at Standard & Poor's.

Lacy's dilemma: He isn't getting profitable top-line growth. Sales at existing stores have fallen the past five quarters. Nowhere is the drop more pronounced than in apparel sales, which have fallen for 16 straight months. In an effort to end the slump, Sears in the fall will launch Covington, a classically styled clothing line. It is also taking cost-cutting measures. But as long as sales decline, it's hard to boost margins any way. Although Sears cut costs by \$100 million in the first quarter, its store card operating expenses remained essentially flat as a percentage of sales.

Lacy's plan to eke more profits from the Sears store card could even crimp sales. As rates move up, sales may slow in Sears' one strong area, home appliances, where it has a 40% market share. Sears derives over half of its finance income from such big-ticket items. But Home Depot's Cos., No. 2 behind Sears with a 21% market share, still has a 21% fixed rate on its own store card, vs. Sears' 21%—a gap that is likely to widen as rates start to rise. Last year, Home Depot's gained market share faster than Sears, according to market research firm IRI.

Turning to the MasterCard isn't a long-term solution to Sears' problems, either, says Brian James, a retail analyst at investment firm Loomis, Sayles & Co. Sears is pushing into a highly competitive market, where its costs of acquiring new customers will ultimately rise once it has wooed existing customers. "Lacy is making the credit side of the model work when he has a gaping wound on the other side of the business," James says. Lacy will be buying some time with his firestorm push, but he can't mask Sears' deteriorating retail business forever.

by Robert Berner in Chicago and
other Timmons in New York



BANKING

FOR SMALL BANKS, IT'S A WONDERFUL LIFE

They're gaining on the biggies with old-fashioned service

Michael Berk, chief executive of H&S Yacht Sales in San Diego, has had more bankers than Southern California has sunny days. Each time his bank merged with another, he says, service got worse. "The big joke was if we wanted to find out something about our accounts, it was, 'Call the 800 number in Fargo,'" says Berk, whose company sells \$60 million in luxury boats a year. Last month, after his big bank changed his contact person for the sixth time in four months, he moved all his business to Beverly Hills (Calif.)-based City National Bank, which has just \$10 billion in assets. In four days, Berk got the line of credit he had waited three months for at his old bank. City National reps even call Berk regularly to check in on him.

Small banks are back on the map. A few years ago, they seemed headed for extinction as retail banks consolidated into a few national players, then ex-

panded into everything from insurance to investment banking. Hell-bent on cutting costs, the megabanks closed tens of thousands of branches, raised account minimums, and slapped on ATM fees. It was a big miscalculation. "Retail has been an undervalued business," says Gordon J. Goetzmann, managing vice-president at First Manhattan Consulting Group, which specializes in financial services. "Big banks just don't get it."

Scorned customers have become a ripe market for community banks. At 48-year-old City National, profits and loan growth are outpacing those of giants like Bank of America and Wells Fargo. Small banks specialize in the royal treatment. Some serve Starbucks coffee. Others offer free baby-sitting and investment advice. And they all cater to markets that big banks have given short shrift, including small businesses, minorities, and rural areas. "The big guys abandoned small towns where

their roots don't run deep, and we've taken the market," says J.W. Davis, president of 15-branch MountainBank Financial Corp. His five-year-old bank is now No.2 in its home county of Henderson, N.C., after Raleigh-based First Citizens Bank, and ahead of \$326 billion Wachovia Corp.

The battle isn't just for fringe markets. Vernon W. Hill, chairman of Commerce Bancorp Inc. in Cherry Hill, N.J., is moving into New York, home turf of the nation's largest players—Citigroup and J.P. Morgan Chase. Thousands flocked to the opening of Commerce's Midtown Manhattan branch last fall for free sandwiches, shoe shines, and caricatures. Lured by free checking, no minimum balances, extended hours, and even free toasters, customers deposited \$1 million in the first week. The bank's assets grew 40%, to \$12.5 billion, in the first quarter of 2002, compared with a year ago. This year, it plans to open 40 branches in the Northeast.

The irony is that the little guys are making money doing what their bigger rivals said wasn't profitable. Small-bank profits have grown at 11.8% annually for the past five years, vs. 8.5% for the big players, says analyst Anthony R. Davis at Ryan Beck & Co., a boutique investment bank. "They generate higher returns by taking less risks," he says. And deposits at smaller banks have grown by 5% a year since the mid-1990s, while growth at large banks has been flat, says First Manhattan's Goetzmann.

Investors have sat up and taken notice. The prices of some small-bank stocks are hovering around 52-week highs they hit recently: BSB Bancorp Inc. in Binghamton, N.Y., surged to \$32.80 on Apr. 17, and United Commercial Bank, which targets San Francisco's Asian community, jumped to \$38.58 on Apr. 12. "Small banks can make money in almost any environment," says John Lyons, president and bank stock portfolio manager for New York's Keefe Managers Inc.

Small banks have been mostly immune to the static economy. Unlike those of the big banks, their customers tend to be local businesses with less exposure to broad economic cycles. Besides, falling interest rates have cut the small banks' cost of funds, boosted their already higher margins, and fueled record mortgage refinancings. Even when interest rates rise, service fees for existing mortgages will continue to feed profits.



Starbucks coffee and free baby-sitting: It's all part of the local banks' personal touch

NEW YORK DEBUT: COMMERCE BANK

Some of the best small banks are thriving because many of their executives once worked at megabanks. They add tight financial management to the small banks' warm-and-fuzzy service. Joseph M. Grant, chairman of upstart Texas Capital Bank, was chief financial officer at Electronic Data Systems and CEO of Texas American Bancshares, the sixth-largest bank holding company in Texas during his tenure in the late

HOW SMALL BANKS ARE TROUNCING BIG ONES

EMPHASIZING SUPERIOR SERVICE

Low fees, low minimum balances, higher interest on deposits, extended hours, and free services such as investment advice

TARGETING THE UNDERSERVED

Catering to minority communities, opening branches in areas that megabanks have abandoned

CULTIVATING LOCAL BUSINESS

Customized loan terms and quick decisions on applications, ready access to credit lines, personal attention from bank executives

Data: BusinessWeek

1980s. Others are importing different kinds of expertise. For example, Keefe helped View Capital Corp. in San Mateo, Calif., hire Robert B. Goldstein, a veteran of small-turnarounds, as CEO last year. Goldstein has slashed View's bad loans to \$83 million from \$800 million.

To be sure, small banks aren't just about altruism. "Most bankers who start banks are building them to sell," says Keefe's Lyons. "They do it because they expect to make a lot of money." While more, the small fry aren't hometown heroes. In Jan.

for instance, regulators closed Midstate Hamilton Bank at a cost of as much as \$500 million to the Federal Deposit Insurance Corp. because of bad loans, American loans and concealment of books from the authorities. Others have taken heat for growing too fast. Sovereign Bank of Wyomissing, Pa., "one of the riskiest moves in bank history," by going deep into debt to expand, says Keefe's Lyons. Its top-capitalized holding company borrowed \$1.4 billion to buy about 280 branches after the 1999 merger of Fleet Financial Group and BankBoston Corp. "We believed enough in the earnings prospect that we were willing to put on debt," says Sovereign CFO Mark R. Collom. Although the balance sheet is improving, some analysts say the bank is still on thin ice.

Big banks have started to notice the business they once disdained is making money for others. So they're moving back to capture lost terrain. Fleet Bank of Boston, which only a few years ago determined to compete with the big banks, is selling its investment bank, Robert Stephens Inc., and scaling back venture-capital investments to concentrate on retail banking and lending to midsize businesses. J.P. Morgan Chase, meanwhile, forecasts it will soon earn more of its profits from retail customers, up 40% now.

The attention to bread-and-butter customers is the same formula along with shrewd acquisitions, propelled Seattle's tiny Washington Mutual Inc. to a \$275 billion national bank in a decade. Khaki-clad tellers still roam the floor asking customers what they need. The answer, obviously, has been credit cards, TLC, and less ATM.

By Mara Der Hovanesian
Heather Timmons in New York,
Chris Palmeri in Los Angeles

WHAT POWERS YOUR BUSINESS?

3 years ago, we set out to enhance customer service at the pharmacy with a best-in-class training program for our pharmacy technicians. To successfully accomplish our goals, we recognized that the ability to monitor and report training certifications would be essential.

READY FOR CHANGE:

16,000 CVS technicians trained using **1** learning management system (LMS) to manage results.

91% of CVS technicians who sat for the national certification exam passed vs. an industry average of 81%.

TODAY:

100,000 CVS employees are positioned to rely on the THINQ TrainingServer® LMS to be ready for change.

What if you could be ready for change? What if you could achieve results—faster? What if you could reduce your organizational risk through learning?

You can, with THINQ. THINQ's learning management software powers the learning that powers the business of more large organizations than any other.

For the full CVS/THINQ story, visit <http://ThoughtLeaders.THINQ.com>. Find out how Jeff and his team stayed ready for change, achieved results faster, and reduced risks.

THINQ
LEARNING THAT POWERS BUSINESS

www.THINQ.com

1.800.869.9461, press 3

"The best way to adapt to change is to be the one who's changing things."

CVS/pharmacy

Jeff Tomchik

Manager of Learning Technologies

WOE IS WORLD.COM

The vultures are circling. Can Bernie Ebbers ward them off?

It was billed as the strategy meeting not to miss. WorldCom Inc. senior executives from around the globe gathered two months ago at the telecom giant's headquarters in Clinton, Miss. They had come to hear CEO Bernard J. Ebbers reveal his grand vision for rescuing a company mired in debt, sluggish growth, and rising controversy about its accounting practices. What executives heard instead was their boss thundering about the theft of coffee in the company's break room.

How did Ebbers know? Because he had matched brewing filters with bags, and at the end of the month, filters outnumbered bags. Henceforth, Ebbers commanded, his executives would follow a checklist of priorities now referred to as "Bernie's seven points of light." They would count coffee bags, make sure no lights were left on at the end of the day, and save cooling costs in the summer by turning the thermostat up four degrees, say three former and two current executives. "Bernie is running a \$40 billion company as if it were still his own mom-and-pop business," says one WorldCom exec who attended the meeting. "He doesn't know how to grow the company, just shave pennies."

Ebbers needs more than a few pennies to save his fading empire. In the 1990s, the onetime high school basket-

ball coach became an entrepreneurial superstar by building the largest rival to the companies of the old Ma Bell monopoly. He used his soaring stock to make 60 acquisitions, capped in 1998 by WorldCom's hostile takeover of MCI Communications, the country's second-largest long-distance company.

Since then, WorldCom has undergone a stunning reversal of fortune. In 2000, the federal government blocked the company's proposed purchase of Sprint Corp., ending the growth-through-acquisition strategy. Data and Internet services growth has plummeted from 27% in 2000 to an estimated 3% in the first quarter. The core long-distance business is melting down: 13% last year. And in March, the Securities & Exchange Commission launched a broad probe into WorldCom's accounting and its \$366 million in loans to Ebbers.

And the worst may lie ahead. On Apr. 19, the company sharply revised its financial projections for 2002, admitting that revenues in its WorldCom Group unit, which serves business customers, would be flat in 2002 at \$21 billion to \$21.5 billion, down from previous expectations of \$22 billion. With the MCI

consumer long-distance business shrinking, the company's overall revenues expected to slip 5% this year, to \$21.5 billion, while net income is expected to drop 40%, to \$1.6 billion. The move prompted Merrill Lynch, Credit Suisse, First Boston, and A.G. Edwards to downgrade WorldCom to "sell," and

TROUBLES ARE MOUNTING

WorldCom has fallen on hard times because of high debt, collapsing long-distance telecom prices, and slowing demand. Its stock has dropped 76% this year, to \$3.41. Here are the problems and the company's turnaround plans:

PROBLEM

GROWTH

Competition is driving down data-service fees, dropping WorldCom Group's revenue growth from 19% in 2000 to nothing in 2002. If WorldCom eliminates the tracking stock for MCI and combines its results with MCI, revenues could fall 5% this year.

RESPONSE

Focus on new products like Web hosting. The company also is expanding internationally, where revenue growth is more than 20%. And it has put new limits on customer discounts.

PROFITABILITY

Fat profits are gone. Net income rose 18% in 2000, it fell 21% in 2001 and is expected to drop 30.1% this year. If the results are combined with those of MCI, earnings could decline 40% in 2002.

Slash capital spending about \$4.5 billion in 2002, half the level in 2001. WorldCom is expected to close its wireless resale business and cut 3,700 jobs.

Ebbers has said WorldCom will recover with the economy. Others aren't so sure

debt load. While only \$172 million in interest and debt maturities come due this year, that will balloon to \$1.7 billion in 2003 and \$2.6 billion in 2004. Merrill Lynch & Co. estimates that the company, which had negative cash flow of \$871 million in 2001, will generate only \$564 million in free cash flow in 2002 and \$1 billion in 2003. If the company can't generate more cash from its operations or raise money in the capital markets, it could tumble into bankruptcy. "There's a high probability WorldCom will be in Chapter 11. Clearly, we're worried about it," says David Wyss, chief economist for Standard & Poor's. A WorldCom spokesman declined to comment on the possibility of bankruptcy after the earnings warning.

The cash crunch could become critical as early as next year. WorldCom has \$1.4 billion in cash and \$8 billion available through its bank line now. But \$3.8 billion of the bank line will expire this June, and WorldCom has said it won't try to extend it. In 2003, an additional \$2.7 billion in bank credit could expire, leaving just \$1.5 billion in available credit. That year, WorldCom will have to repay \$1.7 billion in maturing debt. "I can hear the clock ticking on WorldCom," says telecom analyst Susan Kalla of Friedman, Billings,

Ramsey & Co. "I think the company is facing a doomsday scenario."

The vultures are circling. Verizon, SBC, and BellSouth all have talked to WorldCom about acquiring the company in recent months, according to WorldCom executives and investment bankers. The talks have stalled, largely because the terms offered have been unacceptable to Ebbers. Last fall, Verizon Communications offered no premium over WorldCom's stock price, then about \$13, and offered only to make Ebbers a powerless vice-chairman. SBC insisted that Ebbers resign as part of a deal. And BellSouth Corp., which was approached by WorldCom about a merger, wanted nothing to do with the company's \$30 billion in liabilities.

As recently as February, Ebbers staunchly denied the possibility of bankruptcy. He has said WorldCom will generate \$700 million in cash this year, \$1.7 billion in 2003, and \$3 billion annually beginning in 2004. That would be more than enough to cover the \$4.5 billion in debt maturing in the next three years. "Bankruptcy or credit default is not a concern. To question WorldCom's viability is utter nonsense," Ebbers said on a Feb. 7 conference call. Ebbers and other senior execs declined repeated requests for comment in April. This story was put together based on interviews with 36 current and former employees, investors, analysts, and rivals.

Despite the brutal industry downturn, Ebbers has said WorldCom will recover as the economy picks up over the next year. Addressing investors at a Merrill Lynch conference on Mar. 12, he laid out the company's strengths: a \$10 billion global network with the

unheard-of rating. Credit-rating agencies Standard & Poor's and Moody's cut the company's status to two notches above junk status. The stock plunged 43% in two days, to \$10 a share.

Now we question WorldCom's survival. It's carrying a teetering \$30 billion

debt load. While only \$172 million in interest and debt maturities come due this year, that will balloon to \$1.7 billion in 2003 and \$2.6 billion in 2004. Merrill Lynch & Co. estimates that the company, which had negative cash flow of \$871 million in 2001, will generate only \$564 million in free cash flow in 2002 and \$1 billion in 2003. If the company can't generate more cash from its operations or raise money in the capital markets, it could tumble into bankruptcy. "There's a high probability WorldCom will be in Chapter 11. Clearly, we're worried about it," says David Wyss, chief economist for Standard & Poor's. A WorldCom spokesman declined to comment on the possibility of bankruptcy after the earnings warning.

SEC INQUIRY

The Securities & Exchange Commission has requested info on many issues, including how WorldCom accounted for goodwill from its 60 acquisitions and the \$366 million the company loaned Ebbers.

BELL COMPETITION

By next year, the Bells will have nationwide access to WorldCom's long-distance voice and data market. The Bells have taken 30% of the consumer market where they now offer long distance. They aim to do as well in the business market.

WEAK BENCH

WorldCom has had trouble holding on to talent at the companies it acquired. It has lost nearly a dozen marketing whizzes, including former MCI President Tim Price and former Chairman Bert Roberts Jr.

they have plenty to cover the debt. WorldCom burned through \$1 billion in 2001 but managed to generate \$1 billion in cash in 2002, Merrill Lynch says.

The company says it is cooperating fully. CFO Scott Sullivan notes the company has been reviewed repeatedly by the SEC in recent years and satisfactorily answered all questions.

WorldCom, which has its own local networks, is going after the Bells. On Apr. 15, it started offering unlimited local and long-distance for \$50 a month to consumers in 32 states.

After the MCI deal closed two years ago, the company offered key execs bonuses to stay through mid-2002. As that deadline approaches, it has yet to announce a new plan to bolster management.

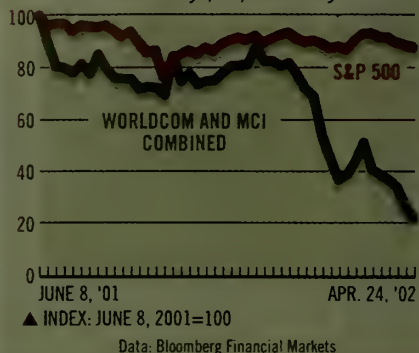
broadest range of data services in the world, and a host of big customers like Federal Express, AOL Time Warner, and Nasdaq. He also explained steps the company is taking to boost growth. It's reorganizing the sales force to make it more productive. It's creating a sales team that will focus on the European market, which is growing 20% a year. And it's targeting U.S. corporate customers that spend more than \$1 million a year with WorldCom but still buy most of their telecom services elsewhere. "We are well-positioned for when the economy begins to recover, with a great base of enterprise customers whose needs will grow," he said during the Merrill Lynch conference.

But some institutional investors say Ebbers may not be around when the economy fully recovers. Four money managers told *BusinessWeek* they would like to see Ebbers step down. Investors, however, say they have not pressured the board or done anything else to apply pressure publicly because they are afraid it would push the stock price even lower. Board members did not return calls seeking comment.

Still, the heat on Ebbers is rising. The SEC inquiry was prompted in part by WorldCom's decision to loan Ebbers \$366 million to pay off margin debt so that he wouldn't have to sell his 17 million shares of WorldCom stock. Ebbers has said he will sell personal investments to repay the money, although it's unclear how quickly he can unload his assets (page 90). The commission is looking into the terms of that loan, as well as 23 other matters, including the commissions paid to 14 fired sales reps and possible revenue inflation. "There will be no under-the-table

TRACKING POORLY

WorldCom investors have taken a beating since the company created a tracking stock for its MCI long-distance business in June, 2001. An investor who bought \$100,000 worth of WorldCom stock just before the split would have only \$20,000 today.



deal to settle this inquiry," says one Big Five partner who has worked on WorldCom. "Every dollar of revenue that agency finds WorldCom never really received will have to be restated."

Most dangerous may be the SEC's questions about WorldCom's acquisition accounting. The company has said that it plans to write off as much as \$20 bil-

WorldCom could lose access to the billion bank credit line it's counting as a cushion to carry it through tight times ahead. A WorldCom spokesman says that's highly unlikely.

As Ebbers faces the biggest challenge of his career, his response been to fall back on his tried-and-approach of cutting costs. His campaign was set in motion in the mid-1980s when he quit his job as a bouncer bar in his native Edmonton, Alta., moved south to play basketball at Mississippi College. After graduating in 1967, he coached basketball and invested in several businesses, including a motel and a long-distance company called Long Distance Discount Service. When LDDS ran into financial trouble, Ebbers took over the CEO post, cut costs to return the company to health.

Now Ebbers is sharpening his pitch once again, to save WorldCom. His biggest target is the company's capital budget, which peaked in 2000 at \$11 billion. Ebbers has announced plans to cut capital spending this year to \$4.5 billion down from \$8 billion in 2001. That's 21% of revenues, slightly more than the industry norm of 20%. But WorldCom

Among Ebbers' cost-cutting directives, say former execs: Stop watering the plants and let them die

lion of its \$50 billion in goodwill because of declines in the value of companies it purchased. But some experts, including Baruch College accounting professor Douglas Carmichael, say the charge could be much higher because telecom companies have been hammered recently. If the SEC forces the company to take a charge exceeding \$45 billion,

could lose its competitive advantage in data and Net services if it cuts back further in the years ahead. "Over time, it would erode WorldCom's competitive position, especially as [the Bells] seek long-distance approval and begin targeting enterprise customers," says analyst Adam Quinton of Merrill Lynch.

Ebbers' other cost-cutting measures at times, border on the absurd. Another of his "seven points of light" was a decision to stop watering WorldCom plants and let them die to save money, according to two former execs. A few months ago, he installed a video camera above the outdoor smoking area to record the length of employees' breaks, four current employees say. And for the first time, Ebbers insists on approving every expenditure over \$5,000, as well as signing off on all press releases, two current employees. A WorldCom spokesman declined comment on cost-reduction measures.

WorldCom insists that this cost-cutting will allow the company to survive. Even after the Apr. 19 warning, WorldCom expects to generate positive cash flow in 2002 for the first time since 1998. And some analysts agree: Lehman

HOW WORLDCOM STACKS UP

Experts once thought WorldCom would dominate telecom, thanks to its Internet backbone, advanced telecom networks, and global reach. But as its core long-distance voice and data markets decline, WorldCom is struggling to keep up with rivals

COMPANY	2001 REVENUE BILLIONS	EST. 2002 REVENUE BILLIONS	PERCENT CHANGE	2001 NET INCOME BILLIONS	EST. 2002 NET INCOME BILLIONS	PERCENT CHANGE	TOTAL DEBT BILLIONS	DEBT-TO-EBITDA
WORLDCOM*	\$35.1	\$33.4	-4.9%	\$2.6	\$1.6	-39%	\$30.8	3.4
AT&T**	42.4	37.7	-12.7	9.3†	8.7†	-5.8	17.3	1.9
VERIZON	67.2	67.5	0.5	8.2	8.5	3.6	64.3	2.3
SBC	54.3	54.5	0.3	8.0	8.0	-0.1	25.5	1.1

*Includes results of WorldCom Group and MCI **Excludes results of AT&T Broadband, which is being sold to Comcast

†Earnings before interest, taxes, depreciation, and amortization

Data: Company reports, Merrill Lynch, Lehman Brothers, Morgan Stanley Dean Witter

VROOM



Only a Xerox Document Centre® shifts your office into overdrive. It prints, copies, faxes, scans and e-mails like no other. Saving you time and money.

There's a new way to look at it.

Performance proves it. Top companies know it. That's why 86% of FORTUNE 500® companies rely on Document Centre Multifunction systems to save time and money.* Our unique design provides



maximum network performance. The result is cost-crunching productivity that puts your business way ahead of the pack. To find out how we can save your business time and money, get in touch today.

Visit: www.xerox.com/vroom Call: 1-800-ASK-XEROX ext.VROOM

THE DOCUMENT COMPANY

XEROX®

Document Centre features are optional. ©2002 XEROX CORPORATION. All rights reserved. XEROX® The Document Company®, Document Centre® and There's a new way to look at it are trademarks of XEROX CORPORATION.

Information Technology

Brothers Inc.'s Blake Bath expects the company to generate enough free cash to avoid any liquidity troubles. "The bull story is that AT&T and WorldCom are the only main alternatives for providing service to large corporations," says Robert N. Gensler, manager of the \$4 billion T. Rowe Price Media & Telecommunications Fund, which owns 11.8 million shares.

The bears are on the prowl, though. Some money managers, including Invesco Telecommunications Fund, have bailed out of WorldCom's stock as it plunged 94% from its \$60.50 peak in July, 1999. The company's bonds are trading as if they were junk bonds. The price dropped from 85¢ on the dollar in March to 67¢ on Apr. 22, after the company's latest profit warning.

The SEC inquiry could give investors more reasons for concern. Ebbers long burnished WorldCom's results through aggressive bookkeeping, according to two accountants who have done work for WorldCom, four current employees, and three former division heads. He would,

for example, capitalize costs that other companies booked as regular expenses. In 2000, according to a footnote in the company's annual report, WorldCom capitalized \$925 million in costs associated with developing in-house software. And Ebbers took huge write-offs associated with acquisitions, enabling him to pump up future earnings. For example, the SEC is looking into a \$685 million write-off the company took in the third quarter of 2000 for the acquisitions of MFS Communications and MCI. WorldCom denies any wrongdoing. "I remember Ebbers telling me once, 'We won't have to worry about earnings-per-share growth for years, with all our acquisitions,'" says a former division head. "He was right—and we all thought he was a genius at the time."

The SEC also is probing WorldCom's "take or pay" contracts. Under such a contract, customers get a discount if they agree to use a certain volume of service over a specific period of time. If they use less service, then they have to pay a penalty. Right now, many customers aren't using the network as much as they

agreed to, yet they're refusing to the penalty. WorldCom isn't enforcing the contracts, fearing customers will jump to other providers, given the glut of work capacity. Nonetheless, the company may still be booking the full value of contract, inflating its revenue figures, three accounting consultants who have done work for WorldCom. WorldCom declined comment.

Investors and analysts are increasingly concluding that there's no way out for WorldCom. The company bet the ranch on the long-distance voice and data business in the '90s. Now the value in the company is going to wireless and local phone service. "We continue to be concerned about WorldCom being a virtual play in long distance, not a sustainable position in the long run, given commoditization and competitive trends," says First Boston's Reingold. And one possible exit, an eventual buyout by one of the Bells at a fire-sale price, probably won't do investors any good.

By Charles Haddad in Atlanta, Steve Rosenbush in New York

ABOUT THAT \$366 MILLION I OWE YOU ...

It's an IOU that has staggered the corporate world. Bernard J. Ebbers, the CEO of WorldCom Inc. and onetime billionaire, owes his company \$366 million because it bailed him out of personal loans that came due when WorldCom's stock tanked.

Now the question is whether Ebbers can repay WorldCom. He says he won't sell his 17 million WorldCom shares, which are currently worth \$59 million. Rather, Ebbers plans to sell off other investments, which WorldCom says are sufficient to cover his debt. The company won't identify those holdings, but *BusinessWeek* tracked down more than \$550 million of Ebbers' investments.

Much of it is in real estate. His personal investment company bought 460,000 acres of timberland in the Southeast U.S. in 1999 from Kimberly-Clark Corp. for

about \$400 million. That property has likely lost value since timber real estate prices have slipped 10% since his purchase, say industry analysts. He also bought British Columbia's

164,000-acre Douglas Lake Ranch in 1998 for about \$60 million, according to brokers who worked on the deal. That property has held its value.

A trucking investment, however, may have soured. Ebbers helped fund the takeover of KLLM Transport Services Inc. in 2000 with about \$27 million. The refrigerated trucking industry has since been pummeled, says analyst John G. Larkin of Legg Mason.

Other holdings have done better. He owns thousands of acres of farmland in the Southeast that have climbed steadily in value. "That land is typically going at \$1,000 or \$1,200 per acre," says Wesley Kent, who sold Ebbers several pieces of Mississippi farmland at \$500 to \$600 per acre. Still, it will take quite a fire sale to cover his \$366 million debt owed to WorldCom.

By Ben Elgin in San Mateo, Cal



FORTUNE UNRAVELING

Bernie Ebbers owes his company \$366 million. He may have to liquidate a huge portfolio to raise cash.

TIMBERLAND In 1999, Ebbers' Joshua Management bought 460,000 acres of timberland in the Southeast U.S. from Kimberly-Clark for \$400 million

DOUGLAS LAKE RANCH Ebbers spent \$50 million to \$60 million on a 164,000-acre ranch in British Columbia in 1998, according to brokers who worked on the deal

KLLM TRANSPORT In May, 2000, Ebbers paid \$27 million to facilitate the takeover of the refrigerated-truck company

BASKETBALL

DAVID STERN MAKES HIS SHOTS

Frank and feisty talk with the NBA commissioner

It's been a busy season for Commissioner David J. Stern—from ushering in the Michael Jordan era to negotiating the National Basketball Assn.'s new six-year, \$1 billion TV contract. Now, playoffs are in full swing, and a slew of teams tries to knock off the defending champs, the L.A. Lakers. How, Stern found time to talk with Mark Hyman, another BusinessWeek editor, about sports on TV, the rise of women's basketball, and more.

Of the new aspects of the NBA TV deal is the creation of a new channel, All Sports Net [which would compete with ESPN]. The program will include more than basketball.

S. We're not envisioning a vertical channel.

We are aware there's a

channel...an an-

television channel

and an announced

all channel. We

one of those al-

ways, called NBA TV.

is about a gen-

eral sports network.

fragmentation

continue to erode TV

viewers for the NBA and other sports

networks?

Yes, the decline in ratings is going

to continue for all sports. It is arith-

metically, geometric, regression analysis. If

you start with three networks, you are

going to get one series of ratings. If

you go to 300, you get another. The

amount of time people are sitting in

front of their sets hasn't gone up dra-

matically. But the number of program-

options has. So there's a huge im-

pact on the aggregation of any one

network. That's why programming like



Should Jordan have returned?

“No one told Picasso he shouldn't paint anymore because his Blue Period was his best”

the Super Bowl, Olympics, and the NBA finals becomes so important.

How far will ratings for sports continue to fall?

We're all going to fight to minimize the decrease. This year, our overall ratings are up 3% on NBC and probably up 7% or 8% on Turner [Broadcasting System]. But I don't know that those are going to be holdable. We hope that by going to an exclusive night on Thursdays on Turner [with no local telecasts competing], and by going to a single

game of the week on Sundays on ABC [instead of multiple games under the current deal], we might get increases in ratings. But nothing is certain.

Still, as ratings decline, rights fees rise. Is that sustainable?

It depends how the model develops. Every technological advance as it relates to TV has included an important component for sports. Going back to when there were three networks, Roone Arledge used sports to make ABC a player. When cable first came in, sports and movies were drivers. We believe that will be true with respect to broadband and the functions people will be able to have delivered on their high-definition TV sets—which really do enhance sports viewing. So we think there's yet another ride left for sports in the next rollout, which is broadband and interactivity.

The WNBA is about to start Year Six. Is it a success?

Yes, a great success. It came out of the box so fast, attendance was so much higher than we expected. [But]...when attendance dropped...it was all hands on deck in the media.

Yet the league still isn't profitable. When will that happen?

Think about the bias of that question. The NHL doesn't make money, but no one asks them about it. Major League Baseball loses hundreds of millions. The NBA has lost, probably, hundreds of millions of dollars the last few years. We've invested \$8 million in the WNBA, and the traditional male media [cry]: “Oh my God, it's losing money.” It's not losing money; it's an investment. In a dot-com age when billions have been thrown into useless assets, the media that cover us are asking exactly the question you just asked. It's so unfair to the sport.

How long is the NBA's commitment to the WNBA?

Indefinite. Unending. It's why we gave it our name.

Michael Jordan's comeback season is over. What's your reaction?

It was the best of all worlds for us. We were in the post-Jordan era, and we had Michael Jordan.

Dot-com billionaire and Dallas Mavericks owner Mark Cuban is an enthusiastic—some would say overly enthusiastic—NBA investor. Is he a challenge to your ability to manage the NBA?

[Long pause] No.

PSST! WHY DON'T YOU SIT THIS ONE OUT?

Bush's political machine is ruffling local GOP feathers

With few exceptions, conservatives are wild about President Bush, who sports a 97% approval rating among the rank and file. But his political team's heavy-handed tactics in the 2002 elections are beginning to raise hackles in the hinterland. In particular, activists on the Right are upset the White House is pushing conservatives aside and anointing moderates to headline the GOP ticket this fall, flouting the Republican principle of local control in the process.

In an attempt to recapture the Senate in November, Bush political strategist Karl Rove and his young lieutenants have focused on influencing the selection of GOP nominees in toss-up states. They are also swinging their weight around in House and gubernatorial contests—jawboning weak sisters, paying off the campaign debts of dropouts, and making their choices oh-so-obvious.

Case in point: When the President went to Georgia earlier this year to campaign for Senate hopeful Representative Saxby Chambliss over former legislator Bob Irvin, state Representative Fran Millar took offense. "It's the people of Georgia, not the White House, who should be deciding on the nominee," he and 18 other state legislators wrote to Rove and White House Director of Political Affairs Ken Mehlman.

In recent months, the not-so-invisible hand of Rove & Co. has not only beckoned candidates into races but also pushed others out of primary battles. Vice-President Dick Cheney called Minnesota House Majority Leader Tim Pawlenty and urged him to abandon a Senate bid so that

centrist Norm Coleman, the former mayor of St. Paul, could get an early start against ultraliberal Democratic Senator Paul D. Wellstone. Republican oligarchs also shoved conservative former Maryland GOP chair Ellen Sauerbrey out of a House race in suburban



WHERE THE WHITE HOUSE HAS BEEN MEDDLING

-  **GEORGIA** The Bushies favor Representative Saxby Chambliss over former state legislator Bob Irvin to challenge Max Cleland for his Senate seat.
-  **NORTH CAROLINA** After Richard Vinroot, former mayor of Charlotte, stepped aside for Liddy Dole, who is seeking the GOP Senate nomination, the RNC gave him \$200,000 to retire campaign debts.
-  **SOUTH DAKOTA** Rove & Co. recruited Representative John Thune to run against Senator Tim Johnson.
-  **CALIFORNIA** Bush backed former L.A. Mayor Richard Riordan over financier Bill Simon in the Republican gubernatorial primary. Simon won.
-  **MINNESOTA** State House Majority Leader Tim Pawlenty is being pushed aside so former St. Paul Mayor Norm Coleman can take on liberal Senator Paul Wellstone without a primary.
-  **IOWA** Representative Greg Ganske was recruited to run against Senator Tom Harkin, getting the nod over the more doctrinaire Bill Salier.
-  **OHIO** The White House is favoring former Dayton Mayor Mike Turner over newspaper publisher Roy Brown for Representative Tony Hall's seat.

Baltimore in favor of pro-labor mod Helen D. Bentley. And they persuaded former Charlotte Mayor Richard root to abandon a Senate primary test against Elizabeth Dole in North Carolina. A few weeks later, the publican National Committee sent \$200,000 to retire campaign debt.

Perhaps the biggest White House thus far was getting Representative R. Thune of South Dakota to forgo gubernatorial run and challenge Democratic Senator Tim Johnson instead. The has become a proxy for a potential identical face-off between Bush and Senate Majority Leader Tom Daschle (D-S.I.) in 2004. What's more, in the primary to place Thune, the Bushies prevailed over popular Governor William Janklow to run against ex-Senator Larry Pressler, who they consider a weaker choice. "V

OLIVER: looking for the best possible candidate," says Mehlman. "Not wanting to run who is next in line to run, but the best possible person."

Mehlman and RNC Deputy Chair Jack Oliver, both something veterans of the Bush 2000 campaign, are at the forefront of this wheat-chaff operation. Yet Mehlman's vaunted efficiency and Oliver's thick Rhode Island accent were no match for quirky California. Despite the White House's seal of approval, former Los Angeles Mayor Richard Riordan lost the 5 gubernatorial primary to former Bill Simon. And the lies the danger of choosing candidates from afar: If Bush's picks win, there is a lingering ill will among local GOP organizations.

Mindful of the high stakes, the White House is going to bore to get the anointed elected. Bush has crisscrossed the country to stump for hopefuls and simultaneously flog his icy proposals, a twofer that has raised Democratic eyebrows. "The White House bootstrapped an alleged policy event these blatantly political trips the taxpayer picks up the grouches Jim Jordan, executive director of the Democratic gubernatorial Campaign Committee.

The chosen, however, grateful for the attention



With your earned Frequent Flyer miles, SkyTeam gives you vacations to dream about. The Frequent Flyer miles you accumulate on any of the six airlines are redeemable on all six airlines. www.skyteam.com



 AEROMEXICO

 AIR FRANCE

 Alitalia

 CSA CZECH AIRLINES

 Delta

 KOREAN AIR

Caring more about you™

cash Bush's visits provide. The White House "is always trying to maximize opportunities for you to appear with the President and showcase you as a candidate," says Representative Lindsey Graham (R-S.C.), who is trying to replace retiring Senator Strom Thurmond (R-S.C.).

In its quest to regain the Senate, Rove & Co. is leaving nothing to chance. On the day the South Dakota Fraternal Order of Police opted to endorse Democrat Johnson over Thune, Mehlman called the organization four times to urge it to reconsider. And when Housing & Urban Development Secretary Mel Martinez visited Minnesota, Mehlman made sure there were plenty of photo ops with Representative Mark Kennedy (R-Minn.). Kennedy won by just 155 votes in 2000 and faces a Democratic incumbent this year because of redistricting. "Mehlman



MEHLMAN:
*Firmly
focused on
the grassroots*

doesn't focus his time on friends of the President who probably wouldn't need his support," says Kennedy. "He focuses on keeping the majority in the House and regaining the Senate."

While Mehlman, 35, closely monitors grassroots developments, Oliver, 33, fills candidates' campaign coffers. Oliver, who ran John

D. Ashcroft's Presidential campaign before raising record amounts of cash for Bush, has used his national contacts to narrow the funding gap between Republican challengers and their incumbent Democratic foes. What's more, he helps smooth feathers ruffled by the GOP leaders' tough tactics. "He's young, but he has the kind of personality where he can pick up the phone and repair the damage when I've severed ties," says National Republican Congressional Committee Chairman Thomas M. Davis III (R-Va.).

For now, Davis and his White House allies show no signs of tempering their aggressive strategy. "Local parties don't always nominate the strongest candidates," Davis insists.

Still, irking grassroots Republicans could come back to haunt the Administration. The Christian Right is already critical of Bush's tougher line on Israel. And it is the base that generally votes in midterm elections—not moderates and independents. If the faithful are so disenchanted with their standard-bearer that they stay away from the polls in the fall, that could cost the GOP seats in a tight election. In fact, Bush could come to wonder if it might not have been better to live with local control—whatever the outcome.

By Alexandra Starr in Washington

Science & Technology

ENVIRONMENT

A THOUSAND-YEAR PLAN FOR NUCLEAR WASTE

Tiny companies may help the DOE solve the biggest problem



**HANDLING
NUKE
WASTE AT
HANFORD:**

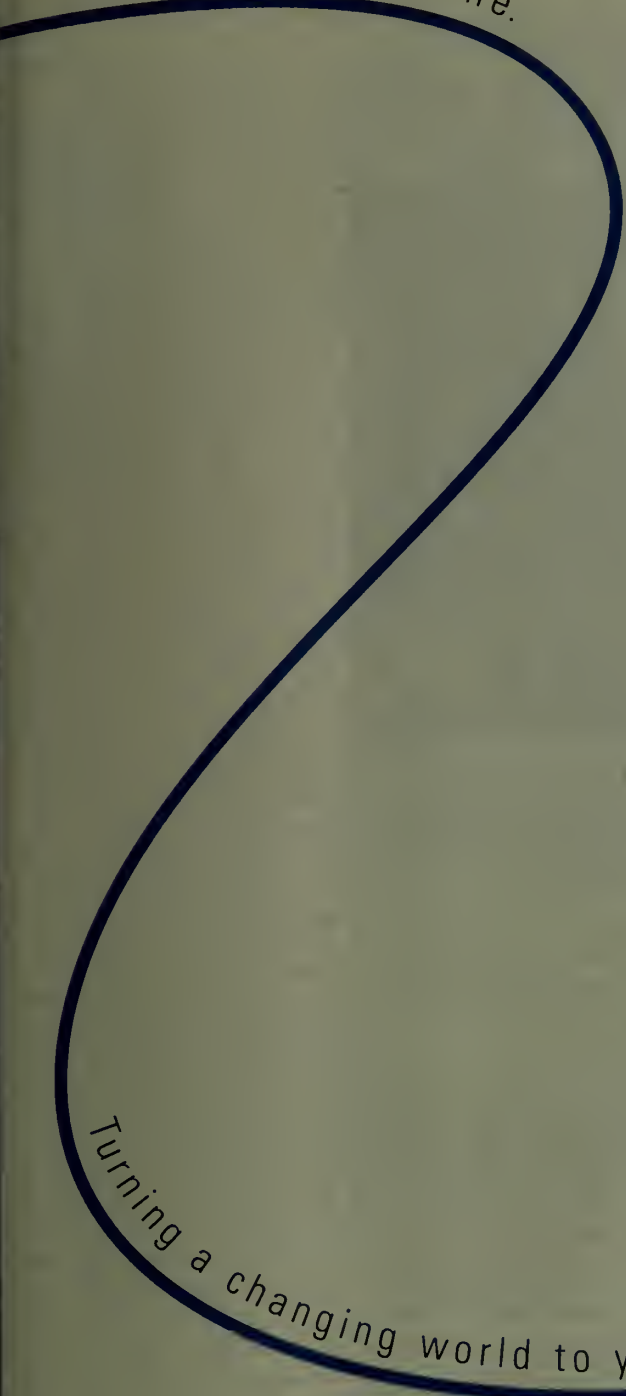
The Hanford Nuclear Reservation is home to North America's worst witch's brew of hazardous waste. The 560-square-mile site in eastern Washington, which produced plutonium for nuclear warheads from 1943 to 1989, houses 53 million gallons of plutonium, uranium, iodine, mercury, and countless other contaminants known to cause cancer, thyroid disease, and other illnesses. One million gallons have already leaked into the soil and are oozing toward the Columbia River, threatening a million residents in the vicinity. When it comes to environmental disaster areas, "Three Mile Island doesn't even begin to com-

pare," says Dirk A. Dunning, a nuclear specialist for Oregon's Office of Environmental Quality.

Watched over by the U.S. Environmental Protection Agency, the custodian of America's nuclear weapons labs, Hanford has been the focus of countless remediation studies. This fall, the DOE will start constructing plants that will transform the worst of the radioactive waste into glass in a process called vitrification. For at least the next 1,000 years, that should prevent the most lethal elements from leaching into the environment.

The plan is far from perfect. Hanford expects to produce about 50,000 tons of radioactive glass that will

The new bottom line.



Business as usual? Never heard of it. Now it's turn on a dime. Get it to market today because tomorrow is too late.

At CIT, we've helped thousands of companies with lending and leasing solutions ASAP. Each one designed to take advantage of a changing world and still manage the bottom line.

And that, of course, is our bottom line.

We're CIT. Today's financing leader. On the Web at CIT.com.

Turning a changing world to your advantage.



have to be buried on-site or shipped to other locations such as the proposed Yucca Mountain repository in Nevada. The cleanup could whack taxpayers with a bill exceeding \$40 billion. And the job is so massive that the DOE's Office of River Protection, which is managing the effort, has already warned that it won't make its 2028 deadline unless it finds new technologies to improve the process. "We need to get smarter," says Harry Boston, who heads the office.

A tiny group of scientists in San Diego, backed by some of the biggest guns on Wall Street, believe they have a cure for the Hanford headache. Archimedes Technology Group Inc. has invented a machine to filter out the most toxic radioactive elements—the ones that must be enveloped in glass. The least dangerous sludge that's left over might then be processed in a less costly manner. The contraption may thus shave years and billions of dollars off the current cleanup plan. Archimedes has raised \$42 million in personal investments from the likes of George R. Roberts, partner in New York leveraged-buyout firm Kohlberg Kravis Roberts & Co. Tully M. Friedman, CEO of Friedman Fleischer & Lowe and an investor in such companies as Levi Strauss & Co. is also on board. "If we could solve this problem, that would be a great legacy," says Friedman.

Nuclear-waste remediation could be a great business, as well. Aside from the work at Hanford, major cleanup efforts are under way or planned at dozens of sites (table). Then there's the high-level waste from 103 nuclear-power plants in the U.S. that will someday have to be removed from the deep pools it's stored in and placed somewhere safe. Factor in radioactive sites in Europe, Asia, Australia, and the former Soviet Union, and you end up with a potential market in the hundreds of billions of dollars.

The DOE and its national labs have been working for decades to develop better ways to deal with nuclear waste, but now more and more private companies are getting involved. The Department expects to award nearly \$50 million in grants in 2003 to companies with new ideas for dealing with the materials. "We're looking for radical alternatives,"

Hot Zones

Nuclear-weapons and energy production have left a legacy of radioactive waste at 131 sites across the U.S. The top five that require remediation:



AN ICBM DURING THE COLD WAR ERA

HANFORD, WASH.

More than 45 years of producing plutonium for nuclear bombs left 53 million gallons of radioactive waste, much of it stored in leaky tanks.

SAVANNAH RIVER SITE, S.C.

This 310-square-mile facility produced plutonium and tritium for nuclear bombs and is now home to 38 million gallons of radioactive waste.

OAK RIDGE RESERVATION, TENN.

The national lab here was a research facility for nuclear reactors and weapons production. The legacy: 350 areas contaminated with radioactive waste.

IDAHO NATIONAL ENGINEERING AND ENVIRONMENTAL LAB

Once home to 52 nuclear reactors, the INEEL ended up with a stockpile of nuclear waste that's the size of a football field and 335 feet deep.

ROCKY FLATS ENVIRONMENTAL TECHNOLOGY SITE, COLO.

After nearly 40 years of producing nuclear weapons, this site was left with 100 tons of radioactive residue, including 3 tons of plutonium.

says Gerald Boyd, assistant manager for environmental matters at the DOE's office in Oak Ridge, Tenn.

Unlike most waste startups, Archimedes is using private funding. It's building a demonstration unit of its invention, called the Archimedes Plasma Mass Filter, in San Diego, and will begin testing it next year with nonradioactive chemicals that mimic the composition of Hanford's myriad oozes. If it works, they'll negotiate a Hanford contract with the DOE.

Nobody disputes that the ma Mass Filter is novel. Now, scientists have focused only on chemical separation—avail. "The people who brought us the bomb brought us a chemical knot we can't untie," John Gilleland, Archimedes' CEO. The company's solution ties together different techniques in plasma physics and nuclear fusion research. The filter, the size of a large sport-utility vehicle, will use heat and electromagnetic fields to draw the radioactive elements out of waste and shoot them into glass-making machines. Then the radioactive elements are mixed with molten glass and poured into stainless-steel containers. The glass solidifies, trapping the radioactivity in logs that can be buried or stored in vaults separating out the most egregious components, the Archimedes vice might cut the amount of high-level waste that must be turned into glass by 75%.

Outside the U.S., Russia may be a major customer. Its made Lake Karachai in Siberia served as a dump for Soviet weapons manufacturers and contains roughly as much radioactivity as was released at Chernobyl. That waste may be headed for the Arctic Ocean. "If it gets there, we'll have an international disaster," says Deborah Brosnan, president of Sustainable Ecosystems Institute in Portland, Ore.

Before rescuing the waste, Archimedes must prove its invention works. While each component of the filter has been tested elsewhere—the plasma technology is used to make computer chips, for example—parts have never been tried together. "Given the risks," investor Friedman, "we have to go in believing we could lose our money."

Lately, the DOE has been open to suggestions. Earlier this year, at the Office of River Protection, Harry Boston met with Archimedes. The filter "isn't ready for prime time, but we're thinking about it," says Boston. It better be. In the past half-century, science has devised many methods to deal with radioactive wastes, but precious few effectively neutralize them.

By Arlene Weintraub in San Diego with Laura Cohn in Washington, D.C.

Developments to Watch

EDITED BY CATHERINE ARNST

OPEN SAME FOR UGMAKERS

THE HUNT FOR NEW drugs, researchers often end up with promising candidates only to find they're not soluble. That makes it hard to deliver the compound safely and effectively. By some estimates, half of all chemists discovered in the laboratory make it any further than that reason alone. Scientists at Baxter International, however, say they have found a way to turn that dead end into an entrance ramp. The question? Miniaturization. The tiny particles can be taken intravenously. Drug particles must be small and less than one micron in diameter. But many small-molecule drugs form crystals 10 to 100 times that size. With the aid of patented "precipitators," Baxter scientists have been able to consistently produce very tiny particles, which can be homogenized to produce crystals a quarter micron in diameter. The scientists then break the tiny crystals so they do not clump back together and can be time-released once in the body. Baxter is testing two drugs in animals and doing earlier-stage work on others. It's also talking with big pharmaceutical companies about using the process to salvage compounds that have failed in clinical trials. Baxter plans to make injectable medications first and may use the technology later to make oral inhaled drugs. Baxter has approvals from the Food & Drug Administration, but it may be four years away. *Michael Arndt*

TWEAKING THE TASTE BACK INTO TOMATOES

GROCERY STORE TOMATOES began to taste funny back in the 1960s, when scientists created the first hybrids designed to stay fresh longer. The hybrids were a quick commercial hit, yet flavor lost out. To survive transport, stay-fresh tomatoes must be harvested while still green and firm, then ripened en route using nontoxic chemicals. So they never develop the delicate sugars or acids of vine-ripened tomatoes. Bioengineers tried to solve the problem in the early 1990s with the Flavr Savr tomato, but consumers balked at the still so-so taste.

Better winter salads may at last be at hand. Scientists at the Boyce Thompson Institute for Plant Research Inc. in Ithaca, N.Y., and the U.S. Agriculture Dept. have identified a "master key" gene that controls the ripening process in tomatoes and some other flowering plants. By tweaking this DNA sequence, team leader Jim Giovannoni, a project scientist at both BTI and the USDA, aims to achieve the Holy Grail of tomato-dom: a fruit that can vine-ripen but stay sturdy enough to transport.

The discovery may improve more than just tomatoes, says Jocelyn K.C. Rose, a professor of plant biology at Cornell University. Other fragile produce, including bananas, bell peppers, melons, and strawberries, could benefit, too. *Adam Aston*



WHEN HEARTACHE MAY BRING ON A HEART ATTACK

HERE'S FURTHER PROOF THAT women are from Venus and men from Mars. Researchers at the University of Minnesota Heart Institute Foundation report that emotional stress is more likely to trigger sudden cardiac arrest in women than physical exertion. But for men, the opposite is true.

The scientists studied 102 men and 20 women who had suffered cardiac arrest, which occurs when the heartbeat becomes so rapid that the organ stops working. It can lead to death within minutes. The patients in the study were asked to fill out detailed questionnaires about their activities prior to their attack. The results: 40% of the women said they were experiencing psychological stress at the time, and only 5% reported physical exertion. Among the men, however, 40% reported physical stress, while 16% were suffering from emotional stress. Dr. Norman B. Ratliff, a cardiologist at the Foundation, told an American Heart Assn. scientific meeting in Honolulu that the mechanism of sudden death may begin on a different biological pathway for women than for men. He also noted that half of the women had no prior symptoms, compared with one-third of the men. ■

IN THE
STRIKE ZONE:
WEST PALM
BEACH, FLA.



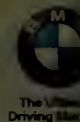
INNOVATIONS

■ Lightning does strike twice in the same place. In fact, in the first worldwide survey of lightning patterns, researchers from NASA and the National Space Science & Technology Center in Huntsville (Ala.) have found a surprising regularity to the distribution of the super-bright bolts. Satellite data from as far back as 1995 show that regions where huge air masses routinely clash breed the most lightning shows. The top hot spots include Central Africa, the Himalayas, and the coasts of Florida. The most lightning-free zones are the North and South Poles. Next up: more sensitive lightning-detection gear will identify dangerous weather patterns over the U.S. as they develop.

■ Air travel could become safer and a bit quicker if a new system that tests boarding passes for explosive residues is put into use. The unit, being developed by Oak Ridge National Laboratory (ORNL) and Britain's Mass Spec Analytical Ltd., could replace existing procedures, in which inspectors swab the luggage and hands of selected passengers, then check for chemical bomb traces using a desktop ion-mobility spectrometer. ORNL's alternative turbocharges inspection by means of a faster, more sensitive mass spectrometer to sample every traveler's boarding pass. Plus the unit generates fewer false results, says ORNL's Gary Van Berkel. Pre-production units are being tested. *Adam Aston*

BMW
Certified
Pre-Owned

bmwusa.com
1-800-334-4BMW



Certified agility

Certified stunning

Certified muscular V-8

Certified peerless

Certified 7-heaven

Certified Pre-Owned BMW



Certified only at an authorized BMW center.

Get warranty protection* up to 6 years or 100,000 miles. Get flexible leasing and financing options. Get pure BMW.

BMW Certified Pre-Owned
by BMW

A stylized, high-contrast illustration of a human face in shades of yellow and green, with a red cross in the center of the right eye. The face is partially obscured by the text and other elements.

BusinessWeek

Investor

MAKING LIFE RICHER

The Coming Revolution In Health Care

■ The Lowdown
On Drug Plans

■ Getting
Health Info
On the Net

■ Barker:
Malone's
Liberty Media

Health Care Choice At a Price

You'll have lots of options—and you'll pay more

BY HOWARD
GLECKMAN

For a decade, Americans have loved to hate managed care. We've grumbled about long waits to see doctors, perfunctory examinations, and restricted access to specialists and costly care. We booed lustily at the mere mention of HMOs in movies such as *John Q.*

Now, the days of tightly controlled managed care may be coming to an end. The new world of health care will offer more choice: You'll pick your own doctors and hospitals and have more say over which drugs you get. But you are also going to pay lots more. Call it choice at a price. "You are going to have more to sort out and more opportunity to hand over cash," says Kaiser Family Foundation Vice-President Larry Levitt.

Already, workers are paying more for their medical plans. And with costs projected to rise 12.7% this year (charts), 40% of large employers expect to shift more expenses to their workers, according to a 2001 survey by the consulting firm Mercer.

One ominous sign: The California Public Employees' Retirement System (CalPERS) has warned its 1.3 million members to expect a staggering 25% premium increase for health insurance in 2003. "I don't think the public understands the extent of health-care inflation. They were shielded from it by a 3.9% unemployment rate" that forced employers to swallow cost hikes to attract quality workers, says Jon Gabel, vice-president at Health Research & Educational Trust, the research arm of the American Hospital Assn.

But employers are doing more than justing premiums and deductibles. Today, the health care market is blossoming with dozens of ideas for delivering care. None of these models is likely to be the long sought-after silver bullet that will improve care while holding down costs. Each is aimed at giving consumers a financial incentive to seek care only when they need it, to think twice before running to the doctor at the first sniffle.

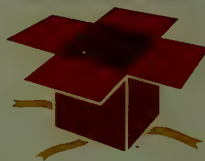
New consumer-driven, or defined-contribution, plans try to encourage workers to be more active in choosing—and paying for—their care by combining company contributions with high employee deductibles (page 102). Some based insurance products allow workers to select a network of doctors to their specific needs and ability to pay. Evolving drug benefits try to drive consumers to low-cost pharmaceuticals (page 103). Consultants help patients navigate the maze. And some doctors provide custom care to those who can afford it. "These new plans give workers the power to decide whether high quality is worth the extra cost," says Len Nichols, vice-president at the Center for Studying Health System Change, a Washington research group.

Confronting this thicket of options will force you to pay as much attention to buying treatment for a disease as purchasing a car. The winners: smart consumers willing to spend the time, energy, and money to get the best care. The losers: those who don't shop carefully and those

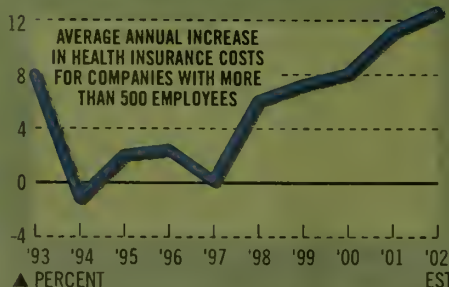
who can't afford the increasingly heavy tab. "For some employees, this is a great thing," says Fronstin, senior research associate at the Employee Benefit Research Institute. "The people who are going to end up losing are those who don't have the money to spend."

At the moment, consumer-driven plans are getting all the buzz. A year ago, they were a niche product, sold by a handful of small insurers such as Lumenos and Definity Health and offered by few employers. Today, major corporations such as Medtronic and Textron are signing on, and insurance heavyweights such as Aetna are rolling out their own plans.

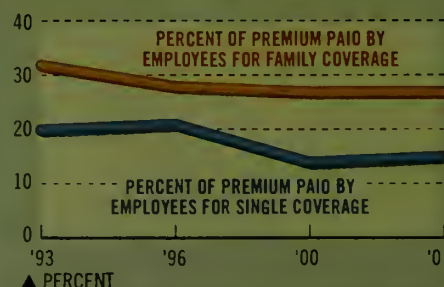
THE NEW HEALTH CARE



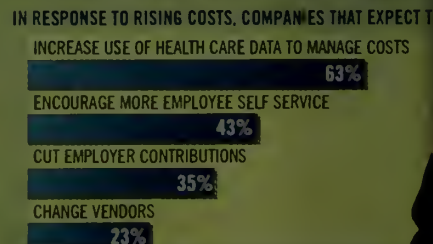
Though Costs Are Accelerating...



...Employees' Burden Has Lessened...



...But That's Not Going To Last



Data: Mercer, Kaiser Family Foundation, Health Research and Education Trust, KPMG, Watson Wyatt

They work like this: Your employer contributes, \$1,000 to your health account. You also face an annual deductible of \$1,500. For the first \$1,000 of expenses, you have no out-of-pocket costs. For the next \$500 you pay every cent. You then share the next \$2,000 with your employer. You may pay 20% or 30%, and the employer pays the balance. Finally, that, the company picks up the tab for any major catastrophic illness. "Employees have to be made aware of the price of health care. They have to have some skin in the game," says Michael R. Perrin, a principal at consultants Towers Perrin.

Premiums are roughly the same as for a standard preferred provider organization. You can see any doctor, though the plans are built around a network, so you can save by using a doctor who has negotiated lower fees.

Since roughly half of all workers spend less than \$600 a year on medical costs, relatively few will have to dip into their own pocket. Why not just spend it all? Because the plans allow you to carry over any unused portion of your employer's contribution to the following year. Spend only \$600 in 2002, and you can use the remaining \$400 in 2003.

To further encourage you to use the funds wisely, the plans also offer Web sites that allow you to track your spending, compare the costs of local doctors, and even get consumer ratings for physicians and hospitals. They also provide medical information and personal advice from a nurse.

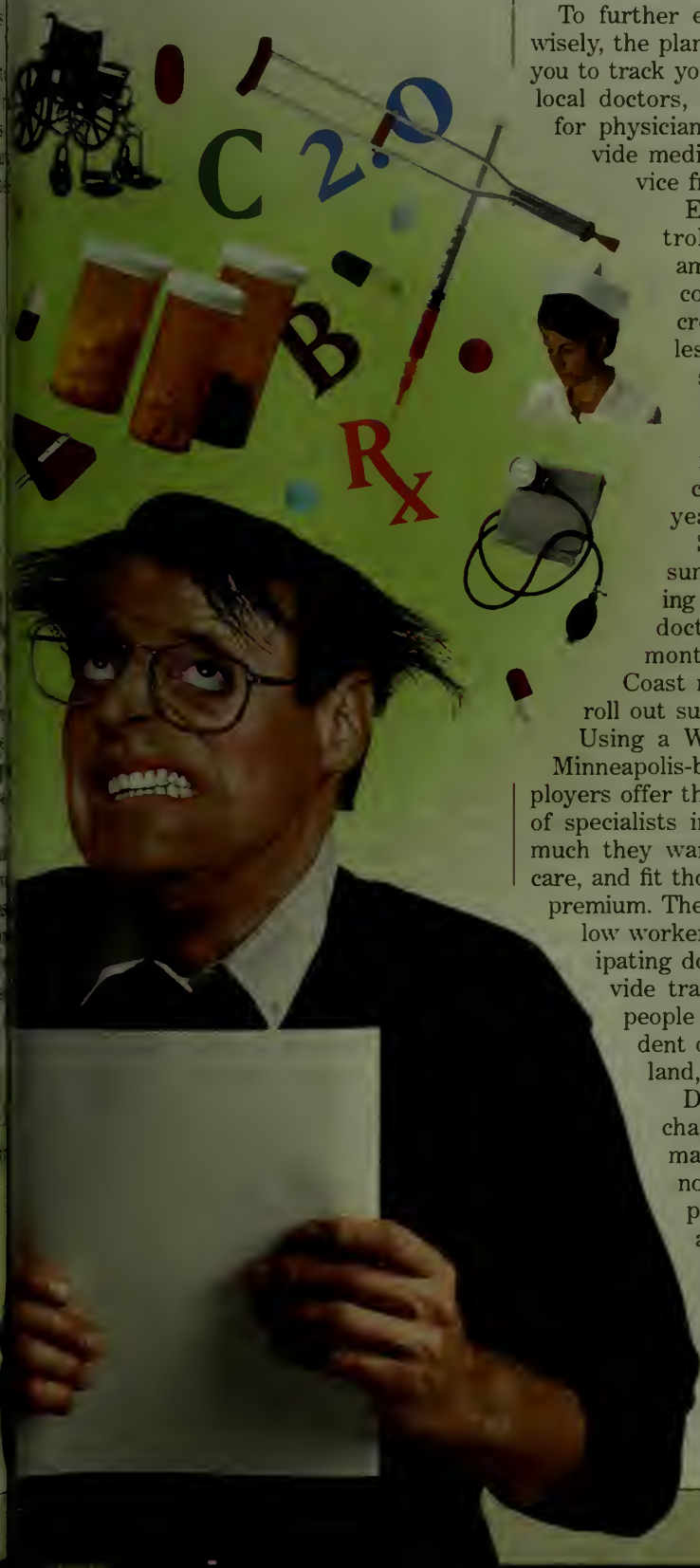
Employers expect to better control costs by contributing a set amount to an employee's health account. And companies may well increase their annual contribution by less than future medical inflation, shifting a greater burden to workers. Pattie Duca, senior director of global benefits for drug-maker Pharmacia, expects her company will save 15% in the first year with such a plan.

Some insurers are taking consumer choice another step—allowing you to customize your network of doctors and hospitals. In a few months, Health Net, a major West Coast managed-care company, hopes to roll out such a program in Spokane, Wash. Using a Web-based product developed by Minneapolis-based Vivius, workers whose employers offer the plan will be able to build a list of specialists in 20 practice areas, decide how much they want to pay out-of-pocket for that care, and fit those choices into a flexible monthly premium. The product, called U Select, will allow workers to see what a visit to a participating doctor costs. "We're trying to provide transparency and see what choices people make," says Steve Lynch, president of Health Net of Oregon in Portland, which will run the experiment.

Don't think you'll avoid these changes by sticking with old-style managed care. Many of today's HMOs no longer require you to get an approval to see a specialist. But that also comes with a price—the \$10 office visit is about to go the way of the \$5 movie.

Managed-care plans are finding other ways to make you more cost-sensitive. Most of us have tiered drug benefits, where we pay only \$10 for a generic, but \$30 for a branded

Don't think you'll be able to avoid higher costs by sticking with managed care. The \$10 office visit is about to go the way of the \$5 movie



version. Well, get ready for tiered hospitals. You'll pay a token amount for going to the community facility, but several hundred dollars for the local teaching hospital—even if it's in your network.

To take advantage of these changes, you'll need access to reliable data about quality and costs. The Net holds great promise for making such info widely available (page 104). And many new health plans are being built around data-packed Web sites. But two problems need to be addressed. First, consumers are overwhelmed with information. Type "diabetes" into the Google search engine, and you'll get 3.8 million responses. On the other hand, finding objective data about a specific surgeon is impossible. "The potential is there," says Arthur Levin, director of the Center for Medical

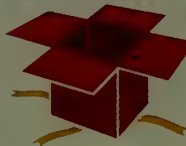
Consumers in New York. "But it is a misrepresentation to say we have the information will allow us to choose wisely."

To fill the gap, organizations such as the F Business Group on Health, a consortium

California employers, fill Web sites with detailed information. "Employers are passing on cost increases to employees," says Peter Lee, the group's director. "But they would rather not just 'Pay more.' They would also like to give consumers more information about health care to make better choices."

Health-care technology has made great strides in recent years, and that is likely to continue. So what is different in the post-HMO world? You'll have to learn a lot more about health care and take advantage of those advances. And you'll have to pay for them.

THE NEW HEALTH CARE



GIVING POWER TO THE PATIENT

BY LAURA COHN

Kimberly Salzbrunn of Oswego, Ill., is on the cutting edge of a dramatic change in health care. Since January, she has taken her 2-year-old son Jacob to the doctor three times for chronic breathing problems, purchased five prescriptions, and spent a recent Saturday in the emergency room. She has not yet had to pay for any of it out of her own pocket.

So far, she's paid her bills—\$358—by drawing down \$1,500 that her employer, Budget Rent-A-Car, is putting aside for her health care this year. She can use the money for her own medical needs, or those of Jacob or her husband, Dan. Preventive care is 100% covered, though doctors must be in the network.

If the Salzbrunns use up their \$1,500, they must pay health-care expenses themselves until they hit a \$2,000 deductible. If they don't spend the entire \$1,500 this year, what is left will be added to their

account in future years.

Salzbrunn, a 34-year-old job training specialist, is one of tens of thousands of Americans with what's known as consumer-driven, or defined-contribution, health care. Her plan is run by Definity Health of Minneapolis, one of two players—Lumenos of Alexandria, Va., is the other. About 50 companies offer these plans, including defense contractor Raytheon and chipmaker Intel.

So far, 12% of Budget's staff—625 workers—is participating in the plan, launched Jan. 1. Budget won't disclose how much workers have in, but it's 20% less than the preferred provider organization (PPO) and 10% more than the HMO options.

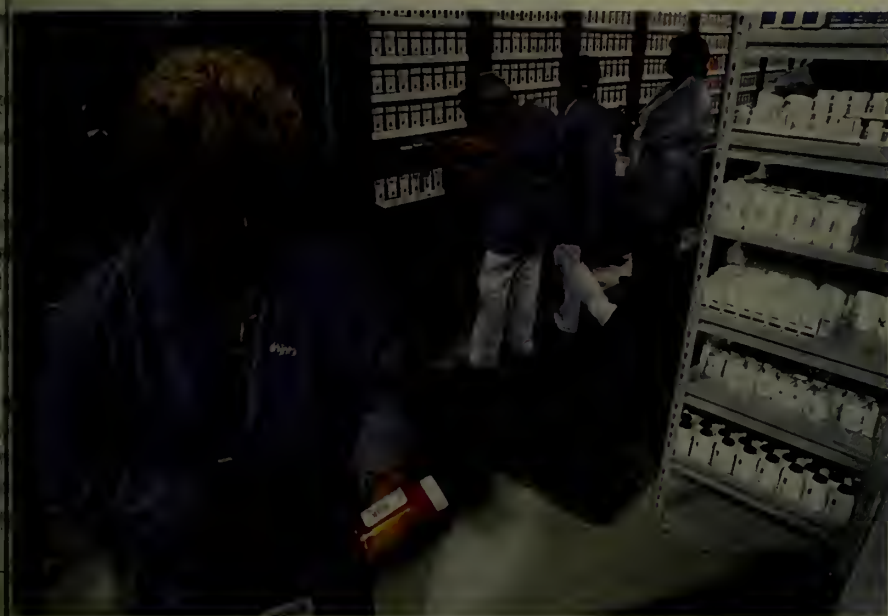
Already, Daytona Beach (Fla.)-based Budget says people are realizing health care costs more than a \$10 co-payment. "Employees are saying 'I didn't realize my prescription cost that much. I went to the doctor and asked he could prescribe the generic,'" reports Jay Cohen, who heads Budget's benefits office. Steps like that add up. Consultants Watson Wyatt say savings run at just 1% to 2% in the first year, but that figure grows over time as participants change their behavior. The providers offer a wealth of information. Salzbrunn has used Definity's Web site to compare medicine prices, check drug interactions and research herbal treatment options. She also uses the site to track her account. "They give you a lot of information," she says.

That sentiment is shared by Ken Lipowitz, 44-year-old vice-president for risk management in Budget's Daytona Beach office. Lipowitz, married with a 15-year-old son, takes two thyroid drugs a day. He prefers his new account to his old PPO because he has just one deductible. "Last year, I had a family plan. I had an individual plan," Lipowitz says. "Every deductible was different. I could never figure out whether I was hitting my deductibles or not. It just seemed like I was always paying out money."

With health-care costs poised to double in five years, companies have no choice but to find alternatives. If employees like those at Budget continue to express satisfaction with consumer-driven plans, they're likely to get a lot of company—very soon.



SALZBRUNN:
Trying out consumer-driven health care



Soon We'll All Be Paying More for Drugs

Insurers and employers pass the prescription buck

**MORRINE
ALERT**

Employer-sponsored plans footed most of the bill for the \$154 billion in prescriptions filled last year. With drug costs expected to jump another 20% this year, companies are asking workers to pay a growing share. That \$5 or \$10 prescription co-payment will soon be history, and many companies plan to increase the amount to \$20, \$50, and more.

If you haven't seen those prices yet, you will. Corporations are working with pharmacy benefit managers (PBMs) that administer drug benefit plans to lower costs and shift more of the expense to employees. PBMs are steering workers away from expensive medications, using tiered systems to increase co-pays for some drugs, limiting coverage, and urging workers to fill prescriptions by mail.

Navigating tiered co-payments is one of the biggest challenges for plan participants. Generics have low co-payments; blockbuster drugs such as Nexium, a heartburn medicine, and so-called lifestyle meds such as Viagra are at the top, where co-pays can be 10 times higher. A PBM's "preferred drugs"—the ones that cost less or give the PBM the highest profit margin—fall in between. Sorting through four or five price

PHARMACY:
*AdvancePCS
workers fill
mail orders*

ing tiers to find the best drug for you will demand a high level of sophistication. "If you're not a doctor, you may have a problem," says

Robert Field, health policy director at Philadelphia's University of the Sciences.

Managing your drug plan starts before heading to the doctor's. Get a list of drugs that your insurer covers—that's called a formulary. Most companies will supply one. But 14 states, including Pennsylvania, Delaware, and Minnesota, don't require disclosure of that information. If your company won't furnish a copy of its formulary, complain to your local lawmaker or state ombudsman.

When you get a list, take it with you on doctor's visits, where you can ask questions before the doctor writes the prescription. Is a COX-2 inhibitor such as Vioxx, which has a high co-pay, more effective than ibuprofen?

Maybe not, but if you have gastric trouble, Vioxx might be better despite the cost. Don't pressure your doctor to prescribe the miracle pill you saw on TV. Heavily advertised drugs often land in the top tier of formularies, meaning they have the highest co-pays or they're not covered at all.

Since formulary lists change constantly as companies unload expensive drugs or add generics, ask for frequent updates. If a key medication falls off, you can appeal to your company to put it back on.

AdvancePCS, Merck-Medco, and other PBMs have a growing influence on what drugs you take. They manage drug benefits for 170 million people and process 70% of prescriptions filled in the U.S. They lobby physicians to prescribe certain drugs. Their computers alert pharmacists to ask doctors to rewrite prescriptions. And they offer savings and greater supplies to patients who fill scripts by mail through the PBM, which cuts out the pharmacist middleman.

Every plan has an appeals process for patients who need a drug that isn't covered. But all require heavy lobbying by your doctor, who will need to justify the prescription in writing.

Whether your company grants an exception "will depend on how good a lawyer your doctor is," Field says.

Mail-order prescriptions can save money, but an order can take up to two weeks to fill. Finally, make sure you get what the doctor ordered—drug switching to generics or a lower-tiered drug happens more often with mail order than at drugstores. If you weren't told of a switch, reject it and complain to your company, doctor, and PBM.

If all this sounds like more work, get used to it. The days of casually strolling into the corner drugstore to pick up what your doctor ordered may be numbered. ■

Managing Your Drug Benefits

- Get a copy of your formulary, the list of drugs in your plan, and share it with your doctor.
- Learn about less expensive drug options and discuss them with your physician.
- Use mail order for maintenance medication.
- Seek a doctor who, if needed, will defend your interest with the pharmacy benefit manager.

**THE NEW
HEALTH CARE**



Getting the Best Care From Your Health Plan

Research is key, but which Web sites are reliable?

BY CAROL MARIE CROPPER

THE NEW HEALTH CARE



In the new world of health care, you may be picking your own doctor, drug plan, even your health insurance—and then paying for it with the help of an allowance, perhaps partially funded by your employer. Even if you remain under an all-encompassing HMO, being a smarter health-care consumer couldn't hurt. With drug companies pushing their pills on TV and word of the latest treatments coursing over the Internet, it helps to bring some patient savvy to the examining table.

You still have to research some decisions the old-fashioned way, with advice from friends about doctors and calls to drugstores to check the price of a needed prescription. But these days, thousands of medical Web sites are also out there to help you. The sheer volume of Internet information can be daunting. Type "high blood pressure" into Google's search engine, and links to 1.4 million sites and articles pop up. Not all of that info is reliable, so we'll lead you to some good places to start. Your best bet is often sites run by government agencies or by recognized organizations such as the American Medical Assn. or Mayo Clinic. Be especially skeptical of sites sponsored by drug-industry groups or compa-

nies that are trying to sell you a particular or treatment.

Lots of important research still can't be on the Net—or from other public sources. A rheumatologist to treat your arthritis? You usually have no way to compare their treatment-success rates. And the only way to even rudimentary price information is by calling doctors' offices one by one. Hospitals? Medicare does collect treatment-success rates for the and-older crowd. But, under industry pressure, the government stopped publishing that years ago. Now, they're available only through secondary sources that may charge you for them.

Still, Web sites can help you cobble together a lot of useful info. And some government nonprofit groups are working to fill the gaps. ■ **Looking For Drugs.** One of the most prominent projects is under way in Oregon, where the state, led by a physician-governor, has taken the task of comparing drugs based on their effectiveness. The first reports have just started coming out, and a more accessible Web version is expected to go up on the state's health-plan site (www.ohppr.state.or.us) by June. It will take two years to evaluate all 25 classes of drugs being examined, says Kurt Furst, executive

FINDING A DOCTOR

WEB SITE (WWW.)	SPONSORSHIP	COMMENTS
AMA-ASSN.ORG	American Medical Assn.	Lets you search for doctors by location or specialty. Also provides physician profiles.
ABMS.ORG	American Board of Medical Specialties	Information on doctors' certifications. Lets you search by specialty.
DOCBOARD.ORG	Administrators in Medicine	Information on disciplinary actions against doctors.
HEALTHCARE-CHOICES.ORG	New York not-for-profit corporation	Malpractice and disciplinary actions, plus some info on case volume and outcomes for doctors and hospitals.
BESTDOCTORS.COM	BestDoctors.com	\$35 for a one-year subscription that allows you to search for doctors rated highly by other docs.



ing more costly medication. But it can't hurt to ask.

You may be tempted to buy one of the prescription-drug cards offered by drug-stores, discounters, and drugmakers. Consumer-advocacy groups such as Consumers Union have doubts about the value of these cards. Patients must crunch the numbers to determine if the potential savings on the drugs they use will outweigh the card's cost, which can run from \$10 to \$84 a year per person covered. Giving your prescription info to card vendors, which are neither health providers nor insurers, also raises privacy issues. And consumers complain that some pharmacies don't honor the cards.

■ **Picking A Doctor.** Finding a good primary-care doctor and or top specialist is usually the starting point for a health-care consumer. Ironically, this is the area in which the least high-tech help is available. The federal Centers for Disease Control & Prevention publishes a detailed report on the success rates and number of procedures performed by fertility clinics on its Web site (www.cdc.gov). New York, New Jersey, and Pennsylvania collect outcome data for heart-bypass surgeons. Those results, as well as some other procedure-linked information, can be found at www.healthcarechoices.org.

In general, the traditional collecting of recommendations from family, friends, and doctors you know may still be the best way to find a local doctor. Physicians who teach at a medical school and can send patients to its top-notch hospital are often good choices. It may be useful to know how receptive a candidate is to communicating by e-mail. Also, find out how quickly a doctor returns phone calls and can work you in if you're sick. For specialists, ask how often the doctor has performed the procedure or surgery you need and see if there's a measurement for success rate.

Make sure the doctor you're considering is board-certified in the appropriate specialty. The sites of the AMA (www.ama-assn.org) and Amer-

Healthgrades.com
offers, for free,
hard-to-get
Medicare data on
doctors' fatality
rates and their
percentage of
procedures with
poor results

for prescription drugs for Oregon Health. The information will provide consumers a unique tool for deciding if a more expensive drug is worth the cost.

Right now, you can log on to a site such as one that links to California's Internet Pharmacy Reference (www.ca.mcodrugs.com) to get a feel of which drugs are commonly prescribed for your ailment. (You'll still need to find out if a generic or suitable over-the-counter medication is available.) Then, you can call local pharmacies or use online pharmacies such as www.cvs.com or www.clickpharmacy.com to compare prices. Make sure any Web pharmacy you use has NABP's (Verified Internet Pharmacy Practice) certification from the National Association of Boards of Pharmacy. You can find a list of certified online pharmacies at www.nabp.net. You can usually find more than one drug to solve a problem—and often a cheaper generic version is available. A private site, www.rxam.com, will, for an annual fee of \$12.95, suggest less expensive alternatives to brand-name drugs. Consider such info advisory only—your doctor may have a specific reason for prescribing

EVALUATING A HOSPITAL

WEB SITE (WWW.)	SPONSORSHIP	COMMENTS
JCAHO.ORG	Joint Commission on Accreditation of Healthcare Organizations	Accreditation reports on hospitals, long-term-care facilities, ambulatory care facilities, and health-care networks.
CHECKBOOK.ORG	Consumers' CHECKBOOK, a nonprofit organization	\$19.95 gets you a two-year subscription to a site that carries, among other things, ratings of doctors and hospitals as rated by doctors.
HEALTHGRADES.COM	HealthGrades, a public company	Information on hospital, nursing-home, and home-health-agency quality based on Medicare outcomes data, state records, and more.

ican Board of Medical Specialties (www.abms.org) offer that information. Others, such as www.docboard.org and www.healthcarechoices.org, can help you find out about disciplinary actions against a doctor. Some paid sites, such as www.bestdoctors.com and www.checkbook.org, provide ratings based on recommendations from other doctors.

■ **Checking Out Hospitals.** The Consumers' CHECKBOOK site and the free www.healthgrades.com draw on the Medicare data about fatality rates and the percentage of procedures with poor results. They also factor in a new quality measure known as Leapfrog, which

THE NEW HEALTH CARE



judges hospitals based on whether they use a computer system that can catch errors when patient drug orders are entered, whether they have appropriate specialists available for their intensive care units, and whether they perform a minimum number of certain procedures.

CHECKBOOK adds doctor ratings as well as hospital reviews by the Joint Commission on Accreditation of Healthcare Organizations. Patients can find those reports and check for deficiencies at www.jcaho.org.

■ **Looking For Coverage.** If you have to choose your own insurance, know that an HMO may have lower co-payments and may encourage better preventative care. A preferred provider organization (PPO) will come with low co-pay as long as you stay in its network of doctors and hospitals, but will give you more flexibility to go outside the network. Fee-for-service will be more expensive but may cover treatments other plans do not, as well as providing more flexibility in deciding where you can get care.

The National Committee for Quality Assurance (www.ncqa.org) is the best-known group evaluating health plans. You can find price quotes by visiting www.ehealthinsurance.com. But you won't get the real rate until you apply for the insurance and give your medical history. If you want human help, an independent insurance agent can give you the merits of different plans.

You'll need to read the policy's fine print to figure out what deductible you must meet before the plan will pay, and what your co-pay will be after that. Find out what your maximum out-of-pocket expense could be, as well as the policy's lifetime-reimbursement cap. Avoid plans with annual caps. Check which conditions or treatments will be excluded and what the payment limits will be for things such as psychiatric and physical therapy.

■ **Getting Smarter.** These days, it's good to do a search on any medical condition you have. Doctors don't always know about the latest findings. And as an informed patient, you may save more time and attention from your doctor.

The Medical Library Assn. (www.nlm.nih.gov) is a good place to search for recommended medical sites. At government-run sites, info has been vetted by professionals and is free from the influence of advertisers and health-care sponsors. The U.S. National Library of Medicine's www.nlm.nih.gov, provides links to medical articles and abstracts. Much of it is tough to read since it's written for doctors. But the library's MEDLINE-plus link adds valuable information on diseases and medications that's more accessible to the layman. If you want to get super-savvy, browse the treatment guidelines doctors refer to at www.guideline.gov. To research an ailment, check out the National Health Council's www.nationalhealthcouncil.org. It has links to groups that focus on particular illnesses.

It's a complicated world, but that doesn't mean you can't live a healthy life in it.

BUYING HEALTH INSURANCE

WEB SITE (WWW.)	SPONSORSHIP	COMMENTS
NCQA.ORG	National Committee for Quality Assurance	Ratings of health plans.
EHEALTHINSURANCE.COM	Medical insurers	Provides health-insurance rates from participating insurers.

SHOPPING FOR DRUGS

WEB SITE (WWW.)	SPONSORSHIP	COMMENTS
OHPPR.STATE.OR.US	Oregon's Office for Health Policy & Research	New state program evaluates drug effectiveness.
CA.MCODRUGS.COM	Citizens for the Right to Know	Info from California's drug formulary lets you search for drugs by medical condition, drug name, or drug category.
NABP.NET	National Association of Boards of Pharmacy	Explains VIPPS certification for online pharmacies; lists online pharmacies.
RXAMINER.COM	Rxaminer.com	\$12.95-a-year site lets user search for lower-cost alternatives to what your doctor may prescribe.

GATHERING MEDICAL INFORMATION

WEB SITE (WWW.)	SPONSORSHIP	COMMENTS
NLM.NIH.GOV	U.S. National Library of Medicine	Features MEDLINE and MEDLINEplus, with professional medical articles and other health info.
MLANET.ORG	Medical Library Assn.	Offers recommendations for other medical Web sites.
NATIONAL-HEALTHCOUNCIL.ORG	National Health Council	Provides links to foundations and societies with information on specific diseases, such as the American Cancer Society.
ONCOLINK.COM	University of Pennsylvania Cancer Center	User-friendly site for cancer information.
NIMH.NIH.GOV	National Institute of Mental Health	Information on mental illnesses and treatments.

A woman in a light-colored top and wide-leg pants stands in a department store, her arms raised in a 'V' shape with a joyful expression. The store has a high ceiling with many recessed lights and shelves of merchandise in the background.

SAKS IS PLAYING TO WIN.

IBM.

@business is the game. Play to win.™

Winning in procurement: Nobody likes footwork. And nobody likes waiting, whether it's a customer in the department store or the buying agent in the purchasing office. Saks Incorporated has an automated procurement system that was designed and deployed by IBM in less than five months. Their IBM e-business on demand™ solution connects to over 300 suppliers to help Saks Incorporated save time and money. e-business is about putting your best foot forward. Get in the game at **ibm.com/e-business**

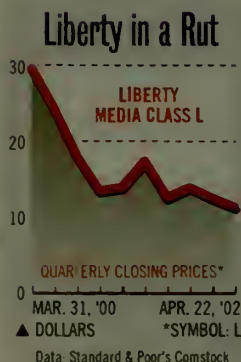
SOMETHING NEW AT LIBERTY MEDIA: VALUE



BY ROBERT BARKER

rb@businessweek.com

Yes, it lost \$6.2 billion. But that was last year. It still has a wealth of sterling assets. Do the math, and the stock starts to look like a bargain



By standard reckonings, John Malone's Liberty Media is a mess. Just out of a brief, bad marriage to AT&T, Liberty last year lost \$6.2 billion. Early this year, German regulators blocked its high-profile bid to buy cable-TV operations from Deutsche Telekom. Now, a mere eight days after saying it would buy back some shares, Liberty turned around and canceled the offer. Liberty's stock, \$2.4 billion of which resides in Malone's own portfolios, now is stuck near lows around \$11 a share (chart).

It's all a dramatic descent from the days when Malone was hailed as King of Cable. So why have some of Wall Street's best stock-pickers piled into Liberty? "No stock is a no-brainer," one veteran growth-stock manager told me. "But Liberty starts out with a lot of the risk taken out."

It's not that Malone hasn't made mistakes. But cushioning Liberty's downside now is the array of assets that Malone stuffed into it. Liberty started as a programming arm of Tele-Communications Inc., the giant cable operator Malone built and in 1999 merged into AT&T. There, it traded as a tracking stock until last summer when Malone quit AT&T's board and AT&T spun Liberty off as a separate company.

The odd offspring is a public company that's best seen as a media-sector mutual fund. With just 55 employees, offices in Englewood, Colo., and Malone as its \$2,600-a-year chairman, Liberty manages a group of closely held cable interests. Among them: half of Discovery Communications, producer of Discovery Channel, the Learning Channel, Animal Planet, and more; 42% of home-shopping channel QVC; all of Starz Encore Group, which furnishes premium movie channels; as well as a slew of foreign cable operations from Britain to Chile to Japan. Last year, each segment saw sales and operating cash flow grow

smartly. Most units see further gains in 2002.

So what's the problem? It's the huge portfolio of publicly traded stocks in other communications companies that Liberty also runs. 18% of Rupert Murdoch's News Corp. and 3% of AOL Time Warner, to 3% of Motorola and Sprint PCS, Liberty's portfolio is full of leveraged big names. Reflecting steep losses in these stocks, Liberty last year had to write down their collective value by \$4.1 billion.

For anyone in Liberty stock, that has been painful, without question. But for prospective investors, this is where things get interesting. For Liberty's own share price has fallen faster than those of the stocks it owns.

Recent values of Liberty's public-company holdings total \$22.5 billion (table).

Liberty wisely used options to hedge some of its stock-market risk in several positions, adding an estimated \$4 billion-plus in value. Altogether, the stock and option portfolio works out to about \$11 per share of Liberty.

Far harder to put a value on are Liberty's sundry private-company assets. Bill Nygren, manager of Oakmark Fund, has squinted over Liberty's balance sheets since 1990. At last year's report, he had nearly 2% of the \$2.4 billion fund in Liberty. Now he figures each share holds \$8 of value in Discovery, QVC, and other closely held

If so, after accounting for its cash and debt, Liberty may be worth \$17 to \$18 a share.

What might close the gap? In a word, Mr. Malone, whose nominal stake in Liberty means the stock he could make his worst pay. Big investors in Liberty are perplexed at why it first offered to buy shares and then backed off. Neither one nor Liberty, Robert Bennett is saying, but their spokeswoman told me they were disappointed in the market's ho-hum reaction to the tender offer. They now are exploring other options, she added. My tradition: Count on strong measures to come.

Mr. Malone's Mutual Fund

Along with such private-company cable television programming assets as QVC and Discovery Communications, Liberty Media owns a grab-bag of stock in publicly held companies.

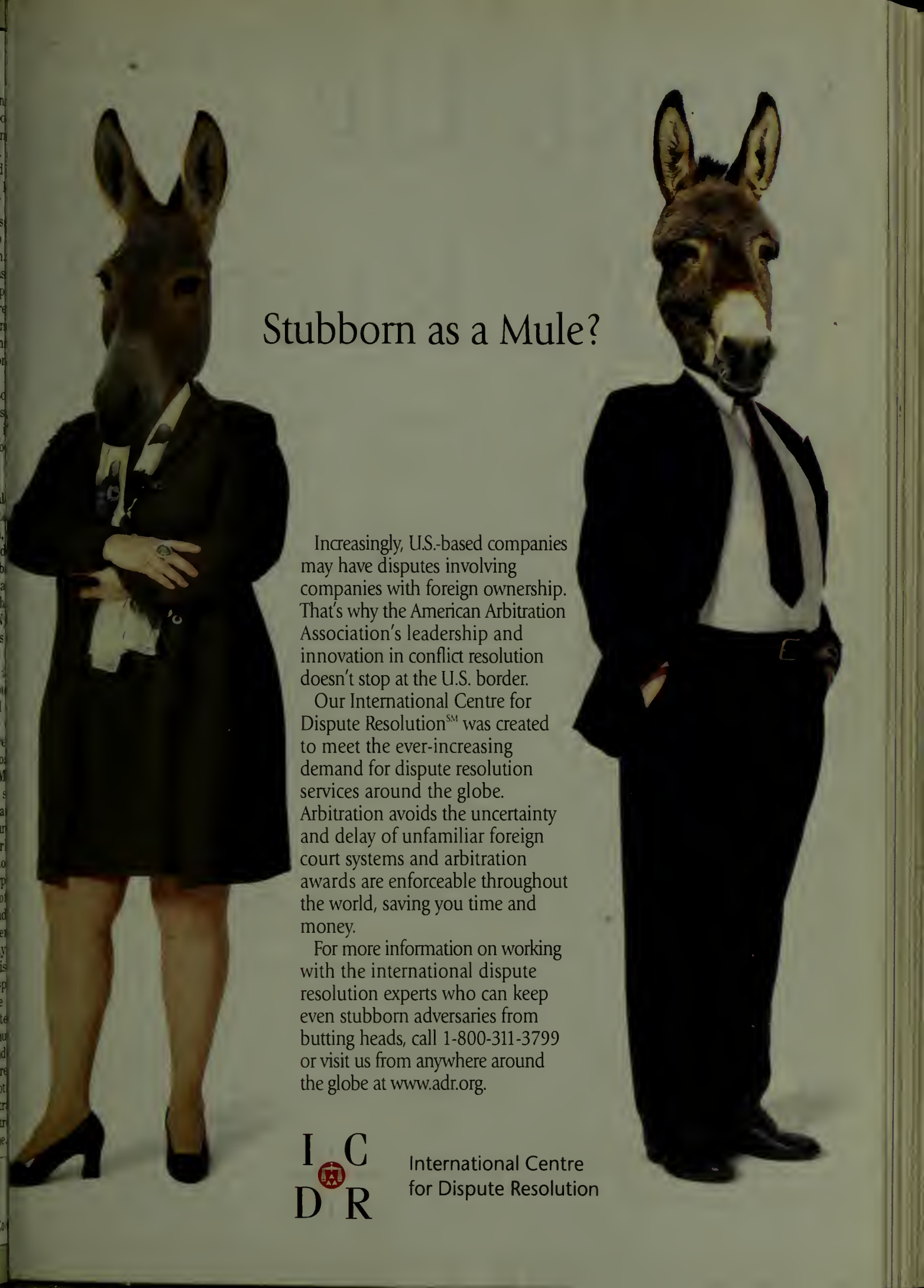
COMPANY/SYMBOL	LIBERTY'S SHARES MILLIONS	SHARE PRICE*	VALUE OF LIBERTY STAKE MILLIONS
NEWS CORP NWS	232	\$27.35	\$6,345
USA NETWORKS USAI	153.4	31.58	4,844
AOL TIME WARNER AOL	171.2	19.87	3,402
SPRINT PCS PCS	192.0	11.19	2,148
UNITEGLOBALCOM UCOMA	306.6	5.43	1,665
MOTOROLA MOT	71.3	15.65	1,116
VIACOM VIA	15.2	50.45	767
CENOANT CD	26.4	18.55	490
MISCELLANEOUS			1,724
TOTAL			22,501

*Closing prices on Apr. 22, 2002

Data: Company reports, Standard & Poor's Comstock, BusinessWeek

BusinessWeek online

For barker.online, go to www.businessweek.com/investor/ and click on "Co

A woman and a man with donkey heads are standing on either side of the central text. The woman on the left is wearing a dark suit jacket over a light-colored blouse and a dark skirt, with her arms crossed. The man on the right is wearing a dark suit, a white shirt, and a dark tie, with his hands in his pockets. Both have a serious, stubborn expression.

Stubborn as a Mule?

Increasingly, U.S.-based companies may have disputes involving companies with foreign ownership. That's why the American Arbitration Association's leadership and innovation in conflict resolution doesn't stop at the U.S. border.

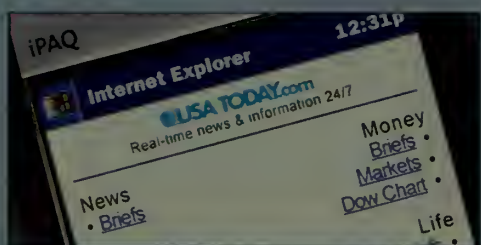
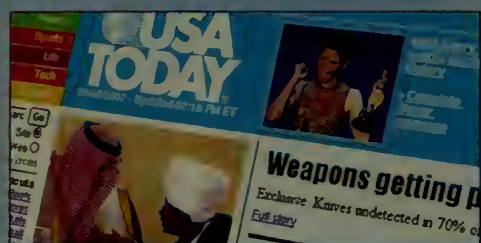
Our International Centre for Dispute ResolutionSM was created to meet the ever-increasing demand for dispute resolution services around the globe. Arbitration avoids the uncertainty and delay of unfamiliar foreign court systems and arbitration awards are enforceable throughout the world, saving you time and money.

For more information on working with the international dispute resolution experts who can keep even stubborn adversaries from butting heads, call 1-800-311-3799 or visit us from anywhere around the globe at www.adr.org.



International Centre
for Dispute Resolution

WAKE UP



KEEP UP

More than a newspaper, USA TODAY is your information network.

Start your day with USA TODAY for the latest news from here and abroad.

Keep up with the latest news all day long with USATODAY.com. With news, scores, stocks and headlines updated 24/7, USATODAY.com makes it easy to know what's happening as soon as it happens.

Prefer a wireless update?

Get USA TODAY headlines on your PDA.

In print, online and wireless, wake up and keep up with all the news that's important to you with the USA TODAY Information Network.



**An economy of words.
A wealth of information.**

usatoday.com

C
GAN

GULFMARK IS A GUSHER



GENE G. MARCIAL

Mark Offshore
ms into
ative waters.
housing boom
draw Buffett
 insurer Fidelity.
ense supplier
is poised
action

GulfMark Offshore (GMRK), a little-known oil-service outfit, is a gusher on Wall Street. While most energy stocks have slumped, GulfMark stock has sputtered—from 23 a share in early October to 41.49 on Apr. 24.

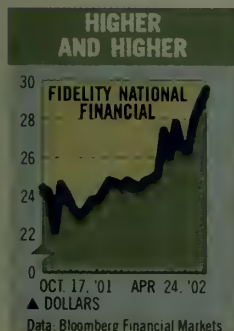
Value investor Scott Black thinks GulfMark is an undervalued oil-patch rarity: It generates solid profits but still sports a price-earnings ratio of just 10.5, based on estimated 2002 earnings of \$3.90 a share and 8.2 times 2003 estimated earnings of \$5. Most of its larger oil-industry peers have p-e ratios of 18 to 20, and in 2001, GulfMark earned 64¢ a share. Black, president of Delphi Management, which manages \$1.6 billion, owns 2% of GulfMark. The company operates 53 vessels, which transport drilling gear and personnel to offshore facilities. It also installs deepwater drilling platforms, operating mainly in the North Sea and in waters off Southeast Asia, West Africa, and Brazil. Tidewater, GulfMark's largest competitor, owns 570 ships.

GulfMark is also undervalued, says Black, based on its assets: He puts its breakup value at 66 a share. GulfMark could well attract a large bidder, says Black. But management, he thinks, may want to wait until its stock goes higher before considering a merger.

Magnus Fyhr of investment firm Jefferies, who rates GulfMark a buy, with a 12-month price target of 57, says increasing deepwater exploration activity, plus rising demand for larger, more advanced vessels, will be the key drivers to GulfMark's continued growth. "It is an attractive play on the growing offshore supply-vessel market," says Fyhr, who doesn't own GulfMark shares.

THIS TITLE INSURER HAS CURB APPEAL

A big beneficiary of the superstrong housing market is Fidelity National Financial (FNF), the nation's largest title insurer. Fidelity shares have leaped from 18 a year ago to nearly 30. With the housing sector expected to stay robust—thanks to low interest rates and favorable demographics—the stock should continue to fare well. Adding fuel to its upswing is recent talk that Fidelity has caught the eye of Warren Buffett, whose holding company, Berkshire Hathaway, owns a string of insurers, including General Re and Geico. Fidelity's leadership in title insurance—where Berkshire has no presence—accounts for Buffett's interest, says one New York investment



strategist, who has been buying shares. Audrey Snell of investment firm Brean Murray rates the stock a strong buy solely on fundamentals. She has a 12-month target of 32. Snell figures Fidelity will earn \$3.51 a share in 2002, just about matching last year's \$3.54 and way ahead of 2000's \$1.82.

Fidelity's title underwriters, including Chicago Title and Tigor Title Insurance, issue about 30% of all title insurance in 49 states, as well as in Canada, Mexico, Puerto Rico, and the U.S. Virgin Islands. Fidelity National also engages in escrow and other title and real estate related businesses.

One analyst who didn't want to be identified figures that, in a buyout, Fidelity, with a market cap of \$2.5 billion, is worth 40 a share, or \$3.4 billion. Berkshire's market value: \$110 billion. Fidelity CEO Bill Foley says the company isn't for sale, but he wouldn't comment on whether Buffett called. Buffett didn't respond to a *BusinessWeek* call.

ECC: A WEAPONS SALE AHEAD?

A small arms maker, ECC International (ECC) has a roster of big clients, including Raytheon, Lockheed Martin, and the Pentagon itself. ECC makes simulators for training personnel to operate weapons systems. One recent order for small-arms systems came from Israel.

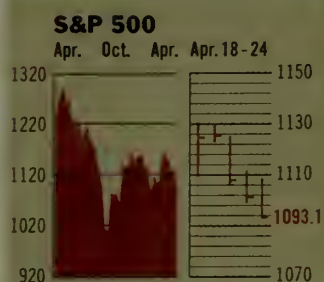
Other defense stocks have soared since September 11, but ECC has languished—until recently, that is. It has risen from 2.60 on Apr. 1 to 3.20 on Apr. 24. The reason: Steel Partners, which owns 29% of ECC, is said to be pressing the company to put itself on the block. Adding credibility to the rumor: Steel Partners pushed another military company, United Industrial, in which it owns 10%, to put itself up for sale last month. United Industrial was featured in this column on Feb. 11. ECC has formed a committee to explore ways "to enhance value, including a potential sale of the company," says a 10Q filing with the Securities & Exchange Commission dated Feb. 14. ECC has a book value of \$3 a share and \$1.40 a share in working capital, with no long-term debt. ECC also has \$1.75 a share in net federal operating tax-loss carryforwards, which could be valuable to a potential buyer. One big investor close to ECC puts its worth at 7 a share, based on defense stocks' p-e range of 25 to 30. In the red last year, ECC is projected to earn 8¢ to 13¢ a share in fiscal 2002 ending June 30, and 25¢ to 30¢ in fiscal 2003, according to that pro.



BusinessWeek online

Read Gene Marcial's Inside Wall Street Online column Tuesday afternoons at www.businessweek.com/today.htm. And see him Fridays at 1:30 p.m. EST on CNNfn's *The Money Gang*.

Stocks



COMMENTARY

Investors reached for their life jackets as a torrent of weak earnings' reports flooded the Street. Hardest-hit was the Nasdaq Composite, which fell 5.4% for the week. Lagging slightly behind were the S&P 500, down 2.9%, and the Dow Jones industrial average, off 1.9%. The Dow lost 190 points in the week, to 10,030, and is now back to where it started the year.

Data: Bloomberg Financial Markets
Bridge Information Systems, Inc.

U.S. MARKETS

	Apr. 24	Week	Year to date	Last 12 months
S&P 500	1093.1	-2.9	-4.8	-9.6
Dow Jones Industrials	10,030.4	-1.9	0.1	-4.1
Nasdaq Composite	1713.3	-5.4	-12.2	-15.0
S&P MidCap 400	537.1	-2.4	5.7	11.0
S&P SmallCap 600	253.1	-1.2	9.0	20.9
Wilshire 5000	10,360.0	-2.7	-3.2	-6.7

SECTORS

	Apr. 24	Week	Year to date	Last 12 months
BusinessWeek 50*	689.7	-1.6	-5.5	-19.3
BusinessWeek Info Tech 100**	352.2	-4.8	-16.0	-25.8
S&P/BARRA Growth	554.3	-2.5	-6.8	-6.6
S&P/BARRA Value	536.4	-3.3	-2.8	-12.8
S&P Energy	217.4	-2.9	2.9	-9.9
S&P Financials	359.2	-2.7	1.1	-0.8
S&P REIT	98.4	-2.3	5.4	14.6
S&P Transportation	198.0	-5.4	0.5	-0.3
S&P Utilities	151.1	0.9	3.6	-27.2
GSTI Internet	83.8	-6.9	-20.2	-35.2
PSE Technology	614.9	-5.9	-10.5	-15.8

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Managed Health-Care	13.3	72.2
Health-Care Facilities	10.7	44.1
Oil & Gas Drilling	10.0	41.8
Homebuilding	9.0	41.8
Distillers & Vintners	8.7	41.8

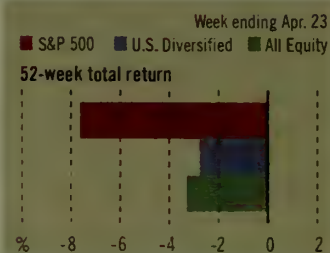
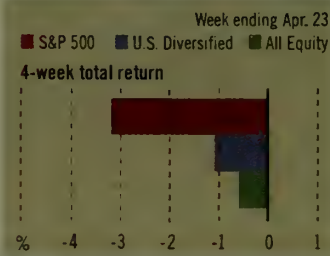
EQUITY FUND CATEGORIES

4-week total return	%	52-week total return	%
Leaders			
Precious Metals	8.5	Precious Metals	65.6
Japan	5.6	Small-cap Value	23.6
Pacific/Asia ex-Japan	5.3	Real Estate	20.2
Diversified Pacific/Asia	4.6	Diversified Emerging Mkts.	17.3
Laggards			
Communications	-7.4	Communications	-38.0
Technology	-6.8	Technology	-28.2
Health	-4.2	Japan	-22.2
Large-cap Growth	-3.4	Utilities	-19.7

EQUITY FUNDS

4-week total return	%	52-week total return	%
Leaders			
Potomac Internet Short	15.8	Matthews Korea	104.4
ProFunds UltraShort OTC	15.7	First Eagle SoGen Gold	93.4
Rydex Dynamic Vent. 100	15.6	ING Russia A	93.1
U.S. Global Investors Gold	14.0	Gabelli Gold	84.1
Laggards			
ProFunds Ultra OTC Inv.	-16.7	ING Glob. Commun. A	-60.3
Smith Barney Telcms. Income	-15.3	INVESCO Telecomms. Inv.	-58.5
Rydex Telecomms. Inv.	-14.4	ProFunds UltraOTC Inv.	-55.4
Munder NetNet B	-14.1	Black Oak Emerging Tech.	-52.8

Mutual Funds



Data: Standard & Poor's

GLOBAL MARKETS

	Apr. 24	Week
S&P Euro Plus (U.S. Dollar)	1060.2	-2.3
London (FT-SE 100)	5218.2	-0.9
Paris (CAC 40)	4528.0	-1.5
Frankfurt (DAX)	5160.1	-3.0
Tokyo (NIKKEI 225)	11,672.9	1.1
Hong Kong (Hang Seng)	11,396.6	2.8
Toronto (TSE 300)	7713.4	-2.0
Mexico City (IPC)	7504.7	-0.9

FUNDAMENTALS

	Apr. 23	Wk
S&P 500 Dividend Yield	1.42%	1
S&P 500 P/E Ratio (Trailing 12 mos.)	56.5	5
S&P 500 P/E Ratio (Next 12 mos.)*	19.9	2
First Call Earnings Surprise*	1.82%	2

*First Call Corp.

TECHNICAL INDICATORS

	Apr. 23	Wk
S&P 500 200-day average	1132.2	1134
Stocks above 200-day average	72.0%	74
Options: Put/call ratio	0.73	0
Insiders: Vickers Sell/buy ratio	3.65	3

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Application Software	-23.6	Multi-Utilities
Internet Software	-20.7	Computer Stge.
Integrtd. Telecomm. Svcs.	-14.7	Telecomms. Equip.
Systems Software	-14.1	Wireless Service
Computer Stge. & Perphs.	-13.6	Instrumentation

Interest Rates

KEY RATES

	Apr. 24	Week
MONEY MARKET FUNDS		
90-DAY TREASURY BILLS	1.71	1.71
2-YEAR TREASURY NOTES	3.22	3.36
10-YEAR TREASURY NOTES	5.10	5.23
30-YEAR TREASURY BONDS	5.61	5.73
30-YEAR FIXED MORTGAGE†	6.86	6.94

†BanxQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt bonds, assuming a 30% federal tax rate.

	10-yr bond
GENERAL OBLIGATIONS	4.30%
TAXABLE EQUIVALENT	6.14
INSURED REVENUE BONDS	4.45
TAXABLE EQUIVALENT	6.36

THE WEEK AHEAD

PERSONAL INCOME Monday, Apr. 29, 8:30 a.m. EDT ► Both personal income and consumer spending are forecast to have grown 0.4% in March. That's according to the median forecast of economists surveyed by Standard & Poor's MMS, a division of The McGraw-Hill Companies. In February, personal income and spending each rose by 0.6%.

CONSUMER CONFIDENCE Tuesday, Apr. 30, 10 a.m. EDT ► The Conference Board's confidence index probably stayed virtual-

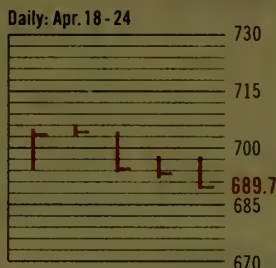
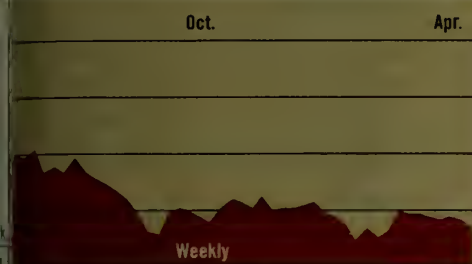
ly unchanged in April, at 110, from 110.2 in March.

PURCHASING MANAGERS' INDEX Wednesday, May 1, 10 a.m. EDT ► The Institute for Supply Management's April industrial-activity index most likely inched slightly lower to 55%, from 55.6% in March.

CONSTRUCTION SPENDING Wednesday, May 1, 10 a.m. EDT ► Building outlays probably increased by 0.3% in March, after a 1.1% jump during February.

FACTORY INVENTORIES Thursday, May 2, 10 a.m. EDT ► Manufacturing inventories in March probably declined by 0.8%.

EMPLOYMENT Friday, May 3, 8:30 a.m. EDT ► Nonfarm payrolls in April are expected to have risen by 50,000 jobs, adding 58,000 positions in manufacturing. The unemployment rate is expected to have risen to 5.8% from 5.7% in March, while the average hourly wage probably held steady at 3.



1.6% for the week ending Apr. 24, weighed down by Tyco International, which tumbled 15.7%. Limited losses on the overall index. Health-care companies UnitedHealth Group and WellPoint rose 8.1% and 5.6%, respectively. Homebuilders Pulte Homes, up 9.8%, and Centex, up 9.2%, profits of better-than-expected earnings for the quarter.

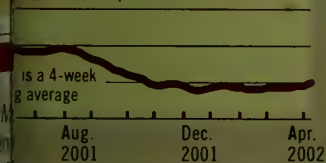
COMPANY PERFORMANCE

Rank	Company	% change		Rank	Company	% change	
		Week	Since 3/1/02			Week	Since 3/1/02
26	Tenet Healthcare	1.7	4.4	26	Tenet Healthcare	2.8	26.3
27	Household International	-0.5	3.6	27	Household International	1.1	19.1
28	WellPoint Health Networks	-3.6	-10.9	28	WellPoint Health Networks	5.6	17.5
29	Washington Mutual	-3.4	7.2	29	Washington Mutual	-0.7	14.3
30	Duke Energy	3.2	4.0	30	Duke Energy	1.1	10.5
31	Kohl's	-12.2	4.1	31	Kohl's	-0.6	8.7
32	Bed Bath & Beyond	0.2	3.0	32	Bed Bath & Beyond	3.1	8.2
33	Cardinal Health	-1.9	-4.2	33	Cardinal Health	-0.1	5.0
34	Centex	-2.9	12.0	34	Centex	9.2	-0.7
35	American Electric Power	4.9	5.8	35	American Electric Power	-0.4	8.7
36	Golden West Financial	8.1	18.6	36	Golden West Financial	1.0	5.4
37	Stryker	3.6	10.4	37	Stryker	-6.1	-11.9
38	Harley-Davidson	-2.4	-3.7	38	Harley-Davidson	-3.1	4.6
39	PepsiCo	-3.1	-7.4	39	PepsiCo	2.0	4.8
40	Merck	-5.7	6.8	40	Merck	-0.4	-10.6
41	Apache	3.2	5.6	41	Apache	0.8	8.3
42	Amerada Hess	-0.5	1.6	42	Amerada Hess	-0.9	12.7
43	KB Home	2.9	-1.4	43	KB Home	7.7	14.0
44	First Data	2.5	-18.0	44	First Data	0.5	1.6
45	Tyco International	-1.9	60.5	45	Tyco International	-15.7	-11.0
46	International Game Technology	-2.4	6.4	46	International Game Technology	6.5	-12.3
47	Capital One Financial	0.7	-1.8	47	Capital One Financial	0.8	30.7
48	Electronic Data Systems	9.8	4.4	48	Electronic Data Systems	2.3	-9.9
49	Nabors Industries	-0.1	5.6	49	Nabors Industries	1.8	24.0
50	Xcel Energy	-6.1	-1.2	50	Xcel Energy	-2.2	7.4

Production Index

Change from last week: 0.5%
Change from last year: -8.9%

AL OUTPUT Apr. 13 = 160.4 1992 = 100



index showed a strong gain. Before the four-week moving average, the index fell from 160. After seasonal adjustments, assemblies posted the biggest increases. Reported April output is set to exceed for a third straight month. Crude-oil ref. traffic, and steel production were electric power fell moderately. Coal and oil inched slightly lower for the week.

of the index components is at www.businessweek.com.
Production index Copyright 2002 by The McGraw-Hill

Online Resources

BW 50 Track the index and the companies in it all day long. Plus: our exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time market coverage and investment tools in partnership with Standard & Poor's.

MUTUAL FUNDS Search for funds, view BW ratings, and read Q&A's with fund managers.

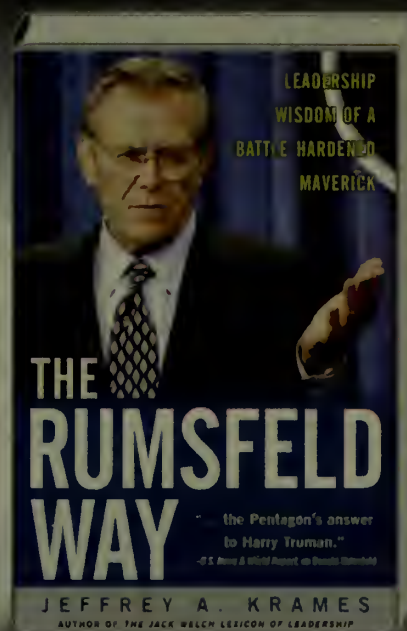
COLUMNS Hot stocks, takeover plays, and the latest strategies for managing your money.

BusinessWeek online

For more investment data and the components of the production index, visit www.businessweek.com.

ON THE FRONT LINES WITH AMERICA'S "Articulator in Chief."

—The Washington Post



Over the past four decades, whether in the offices of corporate America or the corridors of the White House, Donald Rumsfeld's uncanny knack for clear thinking and no-nonsense action has repeatedly been called upon during times of crisis.

The Rumsfeld Way outlines the leadership skills, methods, and strategies that have made Secretary of Defense Rumsfeld one of today's most trusted and accomplished public figures.



Available Everywhere
Books Are Sold
Visit us at
www.books.mcgraw-hill.com

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABB 80
Abbott Laboratories (ABT) 34
ABC (DIS) 91
Accel Partners 8
Accenture (ACN) 30
Advance PCS 103
Aetna (AET) 100
A.G. Edwards (AGE) 86
Allergan (AGN) 40
Amazon.com (AMZN) 8, 42
AMEC Earth & Environment 94
AMR (AMR) 34
Anheuser-Busch (BUD) 42
AOL Time Warner (AOL) 34, 86, 91, 108

Archimedes

Technology 94
Arthur Andersen 8, 10, 12, 68, 116
AstraZeneca (AZN) 32
AT&T (T) 42, 108

B

Bank Financial 84
Bank of America (BAC) 32, 84
Baxter International (BAX) 97
Bay View Capital (BVC) 84
BellSouth (BLS) 86
Berkshire Hathaway (BRK) 111
Blockbuster (BBI) 42
Bristol-Myers Squibb (BMY) 68
BSB Bancorp. (BSBN) 84

Budget Rent A Car (BD) 102

C

Campbell Soup (CPB) 68
Capital One Financial (COF) 34
Celera Genomics (CRA) 42
Cell Therapeutics (CTIC) 32
Cendant (CD) 68
Citigroup (C) 34, 84
City National Bank (CYN) 84
Commerce Bancorp (CBH) 84
Credit Suisse First Boston 86

D

Daewoo 80

Definity Health 100, 102

Deloitte & Touche 12

Delphi Management 111

Delta Air Lines (DAL) 34

Dentsu 80

Deutsche Telekom (DT) 108

DirectTV (GMH) 91

E

eBay (EBAY) 8
ECC International (ECC) 111
Electronic Data Systems (EDS) 84
Eli Lilly (LLY) 30
EMC (EMC) 42
Enron (ENRNQ) 10, 12, 45, 68, 80, 116
Exhibitor Relations 38
Exxon Mobil (XOM) 42

F

Federal Express (FDX) 86
Federated Department Stores (FD) 100

Fidelity National

Financial (FNF) 111

First Genetic Trust 12

First Manhattan

Consulting 84

FleetBoston Financial (FBF) 34, 68, 84

Ford (F) 12

Friedman Fleischer & Lowe 94

G

Gap (GPS) 36
Gateway (GTW) 8
Gazprom 80
Genentech (DNA) 32
General Mills (GIS) 38
Gillette (G) 45
GlaxoSmithKline (GSK) 30
Global Crossing (GBLXR) 68
Goldman Sachs (GS) 26, 34
Google.com 100, 104
Gric (GRIC) 22
GulfMark Offshore (GMRK) 111

H

Hamilton Bank

H&S Yacht Sales

Harley-Davidson 45

Hasbro (HAS) 30

Health Net (HNT)

Hewlett-Packard (HWP) 55

I

IBM (IBM) 68

Illinois Tool Works (ITW) 45

ImClone Systems (IMCL) 32

Institutional Capital 12

Intel (INTC) 100

International Paper (IP) 90

Invesco Telecommunications Fund 86

J

Jefferies 111

Jose Cuervo

International 100



Morgan Chase (J) 84	Merrill Lynch (MER) 34, 42, 86	Pricewaterhouse- Coopers 80	Sovereign Bancorp (SOV) 84	Toyota (TM) 12	Washington Mutual (WM) 84
Ventures 84	Microsoft (MSFT) 22	Q	Sprint (FON) 86	Twentieth Century Fox Film 38	Waste Management (WM) 68
Merly-Clark (KMB)	Millennium Pharmaceuticals (MLNM) 32	Qiagen 80	Sprint PCS (PCS) 108	U	WeillPoint Health Networks (WLP) 30
t (KM) 68	Moody's Investors Service (MCO) 86	Qwest Communications International (Q) 68	Standard & Poor's (MHP) 34, 82, 86, 112	UAL (UAL) 34	Wells Fargo (WFC) 84
berg Kravis	Morgan Stanley Dean Witter (MWD) 34	R	Starbucks (SBUX) 22	UBS Warburg (UBS) 42	Williams (WMB) 42
erts 94	Motorola (MOT) 55, 108	Raymond James Financial (RJF) 30	Steel Partners 111	United Commercial Bank (UCBH) 84	Williams Communications (WCGR) 42
	N	Raytheon (RTN) 102, 111	Sunbeam 68	United Financial 80	Williams-Sonoma (WSM) 36
Mason (LM) 90	Napster 8	RBC Dain Rauscher 34	T	United Industrial (UIC) 111	WorldCom (WCOM) 86, 90
an Brothers	NBC (GE) 91	Redpoint Ventures 8	Tele-Communications (T) 108	U.S. Bancorp Piper Jaffray (UBS) 42	X
(J) 26, 32, 86	Netscape (AOL) 8	Robertson Stephens (FBF) 32, 84	Tenet Healthcare (THC) 34	V	Xerox (XRX) 116
Strauss 94	News Corp. (NWS) 108	S	Texas Capital Bank 84	Ventana Capital 82	Z
ry Media (L) 108	Nike (NKE) 36	SBC (SBC) 86	Textron (TXT) 100	VentureOne 8	Zurich Financial Services 80
eed Martin	O	Schering-Plough (SGP) 30	Thomson Financial/ First Call 34, 68	Verizon Communications (VZ) 86	
(J) 111	Occidental Petroleum (OXY) 68	Sears Roebuck (S) 82	ThyssenKrupp 80	Vivius (VVUS) 100	
is Sayles 82	Oracle (ORCL) 12, 68	SG Cowen Securities 30	TIAA-CREF 68	W	
s (LOW) 82	OrbiMed Advisors 30	Sony (SNE) 36, 38, 80	Tidewater (TDW) 111	Wachovia (WB) 84	
sfilm 38	P	Southwest Airlines (LUV) 34	Toniq 36		
nos 100, 102	Pfizer (PFE) 30		Towers Perrin 100		
	Pharmacia (PHA) 30, 100, 102				
thon Oil (MRO)					
al (MAT) 94					
aw-Hill (MHP)					
Group (MCIT) 86					

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscriber rate \$54.95/year; Canada: CDN \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. **Postmaster:** Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO. 80322-3235.

Glenfiddich

The independent spirit.

Distilled by an independent family company. Bottled as
Glenfiddich, which means "Valley of the Deer."

Matured at its own Highland distillery for a full 15 years
— our Solera Reserve features delicious notes of
oak, honey, vanilla spice, fruit and sherry.



AGED 15 YEARS

CORPORATE GOVERNANCE: THE ROAD BACK

A new era of reform is dawning for Corporate America. Sparked by a popular revolt of the investor class and driven by a Republican Administration surprisingly intent on change, this movement aims to restore core American values of fairness, equity, and responsibility to the practice of big business in the U.S. Because the reform impulse is coming from the center and the right, generally sympathetic to business, the demand for change is all the more potent. It cannot be ignored (page 68).

The magnitude of this movement has been underestimated by many chief executives. They fail to see that the accumulation of indictments, investigations, financial restatements, conflicts of interest, and examples of executive greed has led to a major breach of trust between the public and business leaders. Those CEOs who dismiss the push for reform as merely a temporary down-market phenomenon or overreaction to Enron Corp. risk hurting themselves, their corporations, and the nation. If confidence in Corporate America's leadership is not quickly restored, the equity culture that generated so much wealth in the '90s will dissipate.

The last time the impulse to reform Big Business came from the center-right was at the turn of the 20th century under Theodore Roosevelt. Then, Roosevelt railed against the institution of the giant monopoly trust and the risk it posed to American democratic values. Today, President George W. Bush is on TV criticizing not the corporation per se, but the values held by the business elite. It is the failure of far too many CEOs, board members, accountants, analysts, and lawyers to take personal responsibility, to act with integrity, to be fair and equitable, that makes the reform effort so much a conservative movement about values.

So too is its source. The populist groundswell against Big Business is not made up of unions or the working poor on the left but the prosperous, educated, suburban middle class that lives in the political center. The 100 million-strong investor class embraced the equity culture of the '90s, with its vision of a high-risk, high-growth economy of deregulated markets, individual choice, and opportunity—only to be deceived by insiders who hid the truth, rigged the odds, and enriched themselves.

INVESTOR CLASS ANGER

How did this happen? During the bubble years between 1997 and 2000, it appears that some proportion of the business elite moved into a different moral landscape from the rest of the country. Some CEOs with compliant boards began to pay themselves sums so outrageous that they broke the rules of fairness and equity. At a time when teamwork was raising productivity, some CEOs embraced a winner-take-all philosophy. Twenty years ago, CEOs made 40 times the average employee. Today it is 600. And the bubble has yet to come out of CEO pay. It is still rising.

Some CEOs have even ignored the fundamental American value of rewarding performance and punishing failure. Stock

options that fell out of the money were repriced or swa. Generous severance packages were negotiated going the job—or out. Overcompensated for success, some decided they should not be penalized for failure. They beyond the norms of the nation.

An army of professionals enabled them. Conflicts of est became a way of life among professionals who once great pride in the honesty and integrity of their work countants who were trusted to watch the books cooked instead. Analysts who were supposed to guide and prote vestors used them to engorge themselves and their Boards of directors who should have been auditing fina statements spent far more time on compensation matte

The nation is demanding that the business elite reco with America and restore the values that most people dear. What should be done? The investor class revolt ready bringing honesty back to the financial landscape. companies that provide them are being rewarded on Street. Those that don't are getting hammered. Wit markable speed, debts hidden off the balance sheet in nerships are being brought into sunlight, one-time e passed off as recurring items are being challenged, an quality of earnings is rising fast.

SHAMING CEOs

In the political and regulatory arenas, progress is sh Restoring fairness to executive pay is critical. One ob step is for corporate boards to "just say no" to outlandi quests for millions of options, personal loans, and giant erance and retirement packages. Another would be to re stock options so that they are indexed against peer comp and measure true executive performance. Some comp should try separating the role of CEO and chairman o board to improve governance. The New York Stock change and Nasdaq should insist that key board commi have independent directors. Independent governors for th nancial Accounting Standards Board would speed up au reforms. And making pay for analysts independent of firms' investment banking business would boost the inte of their research.

Legislation may be required, but in the end shame m the most effective method of restoring Corporate Ame reputation. The President himself, a Harvard MBA and fo CEO, and Treasury Secretary Paul H. O'Neill, another fo CEO, have both used the bully pulpit to pressure executiv be more personally responsible for their companies' formance. They have encouraged tough action by the S rities & Exchange Commission and the Justice Dep make public examples of egregious behavior.

The essence of leadership is to keep followers out of h way and to share in the risks and rewards of group e prise. Somewhere, somehow, many CEOs forgot this et truth. It's time to relearn it.

May 13



BURLINGAME PUBLIC
3 8042 05545854 8

BusinessWeek

002

www.businessweek.com

FO
CH

NEW
E OF
INNESS

DL

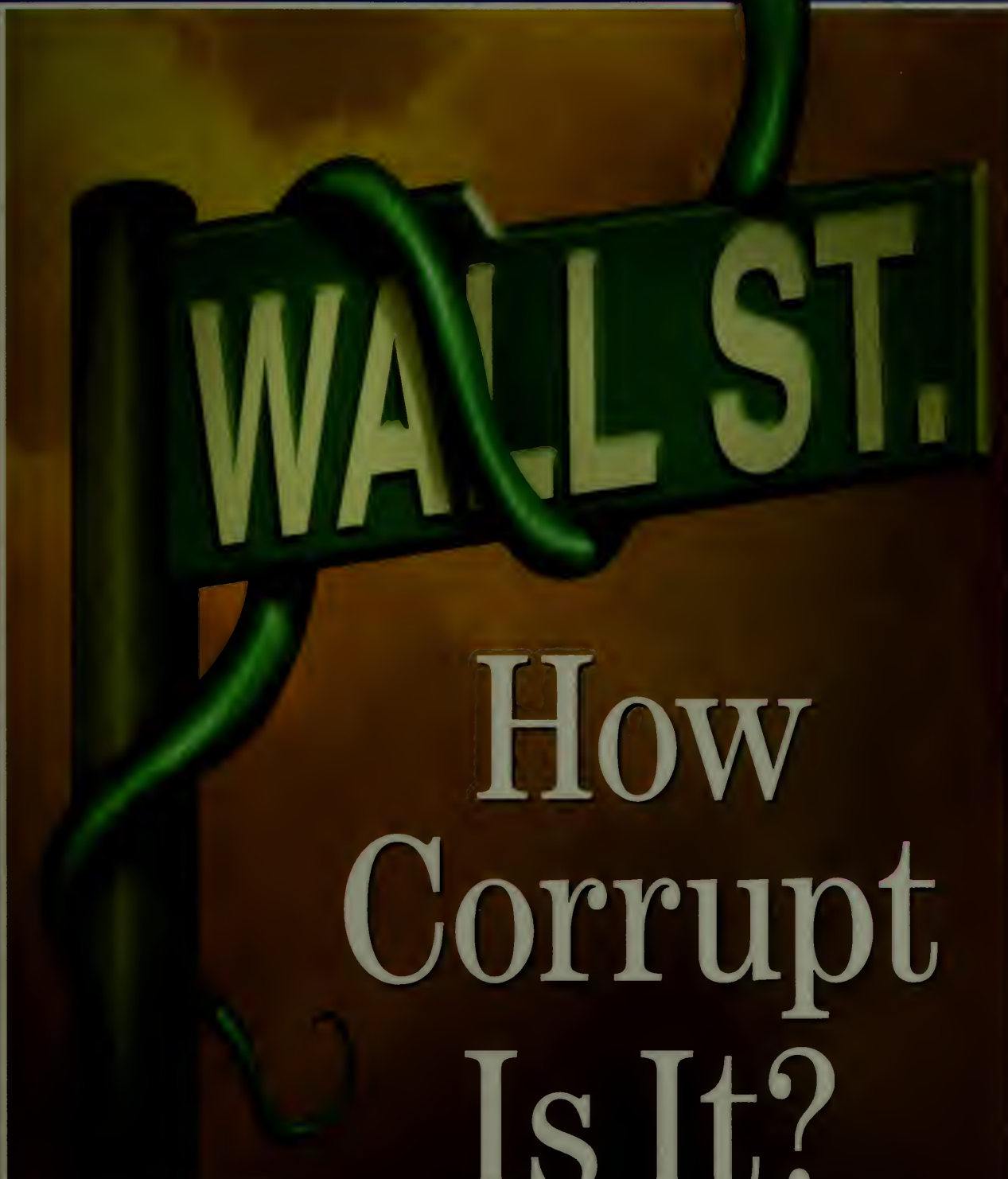
YOUR
N
MALONE

PANIES

- SUN
- SAAB

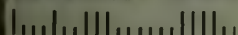
STING

TOOLS FOR
OCIALY
IOUS



How Corrupt Is It?

XBBGDD ****CAR-RT
BRLP000097 1#302



BURLINGAME PUBLIC I
O PRIMROSE RD
BURLINGAME CA

BURLINGAME

MAY - 3 2002

LIBRARY

PAGE 36



©2002 Siebel Systems, Inc. All rights reserved. Siebel and the Siebel logo are trademarks of Siebel Systems, Inc. and may be registered in certain jurisdictions. Other product names, designations and logos may be trademarks of their respective owners.

Lead conversions
at Quick & Reilly
have gone up 50%.

—Donald E. Froude, CEO, Quick & Reilly

Donald Froude believes every customer should feel cared for and valued. A philosophy that's found profitable results with Siebel's CRM software. With it, Quick & Reilly's employee productivity rose 15%. Lead conversions climbed 50%. Customer retention went up 10%. Cross-selling grew 5%. Further evidence that customer relationships are still a company's best friend.

SIEBEL.

Good service
is good business.

To learn more, call 1-800-307-2181
or visit siebel.com/casestudies.



Every part of the street should be a safe place to cross.

At DaimlerChrysler, we look at the road with pedestrians in mind. Which is why we're developing an intelligent recognition system for our vehicles. The purpose of this technology will be to sense if there's an obstacle ahead of the car, and help the driver to avoid it. Good news for drivers. And for anyone crossing their paths. Find out more about the 'vision of Accident free Driving' at www.daimlerchrysler.com.

DAIMLERCHRYSLER

Answers for questions to come.

IBM PCs use genuine Microsoft Windows
www.microsoft.com/piracy/howtotell

in deep, halcyon repose ('hælsɪən, 'hæljɪən *adj.* 2. Peaceful)

Jesse Sheidlower, North American Principal Editor, Oxford English Dictionary

One-touch Web keys on select models that take you directly to your favorite pages! A thin and lightweight construction for easier mobility. **Intelligent design.** It's just one of the reasons why some of the world's most successful people choose ThinkPad notebook computers. Select models feature Mobile Intel® Pentium® 4 Processor-M for outstanding performance and mobility.

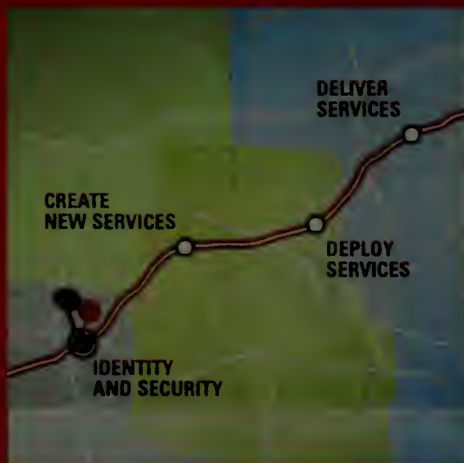
Call **1.877.thinkpad** or visit **ibm.com/thinkpad/think**



ThinkPad ■ Where do you do your best thinking?

IBM

© 2002 International Business Machines Corporation or its subsidiaries in the United States. All rights reserved.



**Sun ONE
Directory Server**

**Sun ONE
Identity Server**

The fastest road
to leveraging and
protecting your
corporate assets.

On the road to Web services,
**you gotta protect
your customer
identities.
You hear that?**

Sun[™] ONE

Open Net Environment

Reports from the road: Textron.

With diverse businesses in aerospace, industrial, telecom and other industries, Textron needed to simplify network identity. Sun ONE Directory Server helps them gain enterprise efficiency, to deliver better information to the right employees, partners and customers.

Sun's associates for the ride.

Sun teams with some of the best systems integrators in the business providing the knowledge and experience you need to develop and implement identity and security policies on the Sun ONE Directory Server today: Cap Gemini Ernst & Young, Deloitte & Touche, EDS, PricewaterhouseCoopers and Schlumberger.

**Buy the Sun ONE Directory Server
and get 25% off the purchase price.**

www.sun.com/ident

Offer expires July 29, 2002.

Guard your own customer or employee directories with Sun[™] ONE Directory Server and Sun ONE Identity Server.

The first stop on the road to building out your Web services platform is determining your identity management strategy. After all, customers are your organization's most valuable asset, so protecting your directory and customer profiles must be a priority. Now you can get ironclad

protection of your customer data with the Sun[™] ONE Directory Server and Sun ONE Identity Server. That's because Sun ONE is built to the highest security standards, so that your data stays safe from hackers and viruses. It's how 60 of the Fortune 100 help protect their customers.



BusinessWeek

MAY 13, 2002

COVER STORY

HOW CORRUPT IS WALL STREET?

The scandal widens
—and investors are
baying for blood

page 36

Cover Story

36 HOW CORRUPT IS WALL STREET?

New revelations about brokers and analysts who push iffy stocks—without pointing out, say, their investment banking relations with the company—have investors hopping mad. Lawsuits and investigations have plunged Wall Street into crisis, and the implications are huge

40 WHAT ANALYSTS ARE PAID FOR

Too often, it seems, for helping investment banks win deal business

43 COMMENTARY: WALL STREET

A sorry legacy of scandal the Street can't shake

44 CAN JACK GRUBMAN HANG ON?

The telecom analyst is under fire for his investment banking role

46 YOU MIGHT GET SOMETHING BACK

If you think a broker's tainted advice cost you, here's what you can do

News: Analysis & Commentary

48 SUN: A RUSH FOR THE EXITS

Now, President and coo Zander is retiring along with three other top execs

49 CAN WORLDCOM BE SAVED?

New CEO Sidgmore must get control over \$30 billion in debt

50 COMMENTARY: TYCO

It's time for Dennis Kozlowski to give up the helm

52 COMMENTARY: THE U.S. BUDGET

Despite what the pols say, there're deficits as far as the eye can see

54 IN BUSINESS THIS WEEK

International Business

58 ITALY: FIAT

It's gushing red ink and losing ground fast, even at home. Can the carmaker be turned around?

60 ITALY: THE AGNELLIS

A grandson is waiting to take over from the patriarchs

63 INTERNATIONAL OUTLOOK

Young Koreans could carry the torch

Economic Analysis

30 ECONOMIC VIEWPOINT

Garten: Corporate governance

32 ECONOMIC TRENDS

The Internet as equalizer; the marriage effect on male earnings; Wal-Mart vs. inflation

33 BUSINESS OUTLOOK

U.S.: All the signs point to sustained recovery
Germany: Growth returns,

92 LEAN TIMES AT THE FACTORY

Reliance on overseas production mean bad news for U.S. jobs

Government

57 WASHINGTON OUTLOOK

A new bill seeks tighter regulation of housing giants Fannie Mae and Freddie Mac

113 NEW DEMOCRATS IN A SWOOSH

They're struggling to regain leadership and clout

Special Report

64 THE FUTURE OF E-BIZ

Judging from the history of previous technological revolutions, e-commerce will likely thrive in the long run

74 PROFITABLE DOT.COMS

It's no joke. Many of them gleaming with black ink

78 COMMENTARY: E-HISTORY

Like dot-coms, past tech acts have gotten off to a rough start

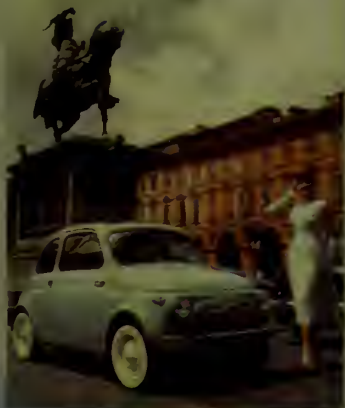


SPECIAL REPORT

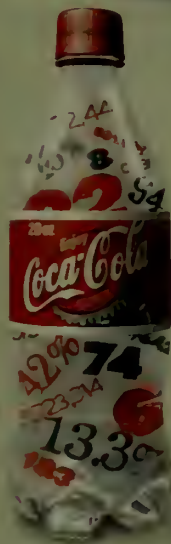
E-biz is ready to rise again, now that a shakeout has cleared the way page 64

IN HIS MIND

John Malone make his voice heard? page 86



OUT OF GAS?
Fiat may not survive as an independent carmaker page 58



FIZZY MATH
Coke's ties to bottlers are raising eyebrows page 98

ETHICAL STOCKS

The Net is putting social investing at your fingertips page 116



CRUNCHED
Employers are pushing workers to the limit page 96

Information Technology

OSTROM: TECHNOLOGY & YOU
Bill Gates crying wolf in the Microsoft antitrust case?

COMMENTARY: CHIPMAKERS
Shut out. This sales upturn may be a mirage—in the absence of semiconductor and electronic-goods recovery

& Technology

SHIELD'S BLACK HOLE?
New missile-warning system has too many snafus and overruns. It may get deep-sixed.

DEVELOPMENTS TO WATCH
Scaling protein production into nanotechnology; improving LEDs; nanorobots

MALONE EYES AOL
Dealmaker just might swap equity holdings to win a board seat

Marketing

MARKET ISN'T DEVELOPING
The APS film format has fizzled, despite all the hype

Social Issues

94 HIRING ILLEGALS GETS RISKIER
A federal probe at Tyson Foods leads to a class action

The Workplace

96 PRODUCTIVITY'S BIG SQUEEZE
Pressuring workers to take on too much now could backfire when hiring reignites

Finance

98 ACCOUNTING QUESTIONS AT COKE
Complicated dealings with its 38%-owned affiliate, Coca-Cola Enterprises, may have to change

100 COMMENTARY: ANDERSEN
Why the firm is making a last stand against declaring bankruptcy

The Corporation

102 NO MORE STOLID OLD SAAB
Parent GM wants a sexier image for its underachieving Swedish stepchild

BusinessWeek Investor

116 SOCIALLY RESPONSIBLE STOCKS
The Web makes it easier to profit while following one's conscience

118 BEATING THE S&P BY DOING GOOD
How Daniel W. Boone III does it

120 MUSIC: NOT TOO OLD TO LEARN
More and more adults are taking up an instrument

122 HERS: TODDI GUTNER
VIPdesk: The story of how a dot-com concierge service has survived

124 THE BARKER PORTFOLIO
Is the Regal Entertainment IPO really a hot ticket?

125 MARCIAL: INSIDE WALL STREET

Features

12 UP FRONT

16 READERS REPORT

19 CORRECTIONS & CLARIFICATIONS

22 BOOKS
Starr: *Embattled Dreams*

126 FIGURES OF THE WEEK

130 INDEX TO COMPANIES

132 EDITORIALS

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

BusinessWeek online

Free to Subscriber

Go to www.businessweek.com and follow the instructions to register. Be sure to have the account number that appears on your BusinessWeek mailing label.

Updated every business day at www.businessweek.com

50

Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

HEALTH OPTIONS:

BW's Amy Dunkin lays out new plans to cope with health-care inflation



BEYOND BIOTECH:

Credit Suisse fund manager Peter Wen offers his best bets for investing in health-sciences stocks



TOOLS

YOUR PORTFOLIO:

Check on the health of your investments



STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



MBA SEARCH: Which is the right business school for you and your needs?



INTERACTIVE FORUMS

Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your hand-held! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the May 13, 2002, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/02_19/online.htm

FedEx Delivers

The king of air-express shippers has launched an aggressive ground war against archrival UPS. It's a package investors seem to like: They've pushed FedEx' stock up sharply since its Sept. 20 low



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Commentary: Facing extinction, the Minnesota Twins are off to a blazing start on—and off—the field



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Commentary: The Street could regain credibility by simply declining to issue stock ratings and price targets

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Savvy Selling: In part two of a series, readers share ideas for crashing past the gatekeepers



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Analysis: EMC's new Centera technology could offer a head start in the hot archived-data sector



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Q&A: Helen Dashney, Michigan State's MBA placement director, discusses finding jobs in tough times

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Analysis: Harley-Davidson faces big challenges in Europe—such as potential high tariffs. But the motorcycle powerhouse keeps gaining

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Books: *Creating a Life*, the headline-grabbing book by Sylvia Ann Hewlett, offers a nuanced look at U.S. career women's lives

BusinessWeek tv

FOR PROGRAM DATES AND TIMES IN YOUR AREA GO TO WWW.BUSINESSWEEKTV.CO

TUNE IN THIS WEEKEND FOR:

In the spotlight: Wall Street analysts

Consumer trends in the retail industry

A new era of risk, and a role for the CFO

SAMSUNG

Makes you want to upgrade your calling plan.



Any excuse
to use it.

The Samsung a400 is as high tech as it is sleek; as feature-rich as it is stylish. So beware, you may find yourself using it more than you anticipated.

- Downloadable images and ringers
- GPS enabled
- Wireless Internet access

With style and features like these, what other excuse do you need? Visit www.samsungusa.com/wireless or call 1-800-SAMSUNG.



Available at:

Sprint Store
The PCS Center

RadioShack

**BEST
BUY**

**circuits
city**

SAMSUNG DIGITalk
everyone's intelligent

Up Front

EDITED BY SHERIDAN PRASSO

BANK NOTES

MORE BANKERS ARE SAYING 'HOLA'

THE U.S. DOESN'T EXACTLY roll out a red carpet for Mexican immigrants, but banks these days are sparing no effort to garner their business. And they're not even asking to see legal residence papers. Bank of America, Citibank, and Wells Fargo are wooing the 21 million people

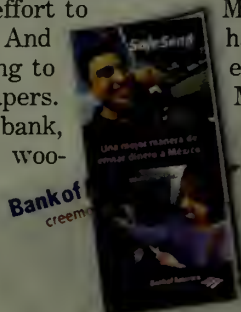
corner the lucrative money-transfer trade, too—amounting to \$10 billion last year. On Apr. 24, Bank of America launched SafeSend, which allows Mexicans to send home \$500 for a \$10 fee. In comparison, Western Union and Money Gram, which handle 40% of money transfers to Mexico, charge \$25.

SafeSend recipients, who are sent an ATM card, can withdraw the money for free from one of 20,000 ATMs in Mexico.

That's handy, as poor Mexicans don't have bank accounts. "This is faster, cheaper, more convenient, and safer than other money-transfer services," says SafeSend manager Jeffrey Bierer.

Citibank, which last year bought Mexico's Banamex bank, is also jumping into the business, charging \$10 for transferring up to \$1,000 to a Banamex branch. Recipients, however, must have a bank account.

Geri Smith



Creo en mi futuro.

of Mexican descent in the U.S. Previously, the estimated 4 million illegals without ID were unable to open accounts. But in the past few months, banks have begun accepting ID cards from Mexican consulates, thousands of which were issued post-September 11.

Now, banks are trying to

THE LIST DON'T JUST SELL—RUN!

It may be tough to get a "sell" rating out of a Wall Street analyst (page 36), but the folks who rate mutual funds aren't nearly so reticent. Here are five mutual funds to avoid, according to Morningstar:

FUND/ ADVISER	YEAR-TO-DATE RETURN	WHY IT'S SO BAD
BERKSHIRE FOCUS THE BERKSHIRE FUNDS*	-20.5	Bold bets on tech haven't paid off
IPO PLUS AFTERMARKET RENAISSANCE CAPITAL	-8.5	The name says it all
AIM EUROLAND AIM ADVISORS	-6.7	This European fund doesn't invest in Britain or Switzerland
PHOENIX-ZWEIG STRATEGY PHOENIX INVESTMENT PARTNERS	-4.3	Fund turned bullish just as market became bearish
AXP INTERNATIONAL AMERICAN EXPRESS FINANCIAL	+0.3	Consistent laggard, despite changes in management

*No relation to Warren Buffett

Data: Morningstar Inc.



TALK SHOW "I am convinced that the United States has regained its economic footing."

—Treasury Secretary Paul O'Neill

PRODUCT PEEK

A PORSCHE YOU CAN BOOT UP

TIRED OF BORING BEIGE IN A PC? Check out the new Matrix from, ahem, Best Buy.

The nation's leading electronics retailer plans to relaunch its house-label computer this summer with a sleek makeover by Porsche Design, the firm set up by a grandson of the German sports-car maker. Best Buy is betting that the angular, bluish-black-and-silver computer will steal



VRROOM: Best Buy's restyled computer

a march on the best-sellers on its aisles from Hewlett-Packard and Compaq Computer. "Our customers want more than a white box," says Steven Lee, Best Buy's vice-

president for develop-

The vpr Matrix, introduced as a plain box in January, offers more features than competitors for about less. Even though customers had to purchase a separate monitor, they responded

enthusiastically. Many stores sold out. Now, the sexier, complete Matrix, Best Buy hopes to offer a more distinctive brand identity challenges.

Along with publicly alienating PC vendors, Best Buy faces the same hurdles forced others of private-label fluctuating

prices and rapid obsolescence. Still, by turning designer of things from glasses to high-end appliances, Best Buy plans to take risks in style. Robert B.

SPORTS BIZ

JOCKEYING FOR THE TRACKS

IT'S A NECK-AND-NECK RACE. And we're not talking the May 4 Kentucky Derby. Rather, two publicly traded companies are in a competition to consolidate the \$14.5 billion U.S. horse racing industry. Churchill Downs Inc. had an early lead. The Kentucky company now owns six tracks, including Arlington Park outside Chicago. But rival Magna Entertainment has pulled ahead in the past three years. The Toronto company, started by Canadian auto-parts magnate Frank Stronach, has acquired 11 tracks including

Santa Anita Park near Angeles and Miami's stream Park.

Next, they may be racing to purchase the Maryland Jockey Club, which includes the Pimlico Race Course, home of the Preakness. Between the two, Churchill Magna now control 50 horse track betting in the country.

Owning the top track is key. Live racing attendance has been declining for years, but the companies with the best lineup of horses can increase revenues by selling casting races to other owners where 80% of the stakes are placed.

Stronach: "I want to get the living room around the world."

Christopher Pa



For more on this story
www.businessweek.com



THERE ARE THOSE WHO DO. AND THOSE WHO WOULDACOULDASHOULDA.

Which one are you? If you're the kind of person who's willing to put it all on the line to pursue your goal, there's AIG. The organization with more ways to manage risk and more financial solutions than anyone else. Everything from business insurance for growing companies to travel-accident coverage to retirement savings plans. All to help you act boldly in business and in life. So the next time you're facing an uphill challenge, contact AIG.

THE GREATEST RISK IS NOT TAKING ONE.™



INSURANCE, FINANCIAL SERVICES AND THE FREEDOM TO DARE.

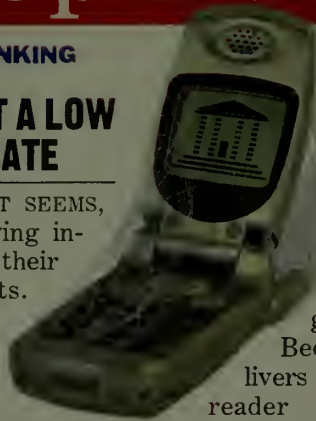
Up Front

WIRELESS BANKING

TALK ABOUT A LOW INTEREST RATE

FEW PEOPLE, IT SEEMS, care about having instant access to their bank accounts. Only about 16,000 Americans use wireless banking, according to tech research firm IDC. And several banks have found that customers with alternatives such as ATMs, online access, or phone service don't need to check their balances or move their money around on handheld devices. At least one, Bank of America, dropped plans for wireless after disappointing trials. "Transactions aren't that urgent that people have to use a cell phone," says Ron Shevlin of Forrester Research.

At FleetBoston Financial,



wireless use peaked at less than 1% of on-line customers shortly after its late-2000 launch. Usage has fallen ever since—except among one group, the blind.

Because wireless delivers only data, the text reader that synthesizes voice does not have to wade through graphics, speeding the transaction. Fleet says it will keep wireless going, though it did cancel one feature, stock trading. "We've gotten zero complaints," says Jim Goodwin, Fleet's head of Online Financial Services.

The take-up rate is equally abysmal at tech-savvy Wells Fargo, where 6,000 people, less than 0.25% of 3 million online customers, use wireless. The bank hasn't yet decided whether to cancel it.

Faith Keenan and
Timothy J. Mullaney

PRODUCT PEEK

A HEALTH DRINK FROM OLD WEALTH

JUST BECAUSE YOU'RE A member of the horsey set doesn't mean you can't be an entrepreneur. A bunch of youthful heirs to the Campbell Soup, Dow Jones, Exxon, and Johnson & Johnson fortunes are grouping together to make a run at the healthy-beverage sector via a company called Hampton Mills in Far Hills, N.J. First up: soy- and whey-based sports shakes called Robin.

The powder in a plastic bottle (add water and shake) offers a high-protein, low-cal "meal replacement" that's targeted as much at active moms as musclemen.



(Hence, the name Robin, meant to stand out from medicinal- or macho-sounding rivals.) Company president and veteran adman John Susskind says his investors—all fitness buffs and several with food-industry backgrounds—aren't taking a passive role. Campbell heir Chester Weber, 26, who studied at Cornell University's hotel-administration school, is working retail connections to win shelf space. Elisabeth Goth, 38, a champion equestrian and heir to the Dow Jones fortune, helped refine the label and recipes. Says Goth:

"As an athlete, I relied rather heavily on products like these." Now, they hope others will, too.

Gerry
Khermouch

DRAWN & QUARTERED



"A DOG BISCUIT COMPANY SOUNDS LIKE A REALLY GOOD CHOICE TO ME."

AFTER ENRON

FIELD TRIPS FOR EXECS: PRISON

IMAGINE SCARED STRAIGHT the suit-and-tie set: a day face-to-face encounter with seemingly normal execs except they've traded Brooks Brothers' pinstripes for the prison-issue variety.

With the Enron and Andersen scandals thru

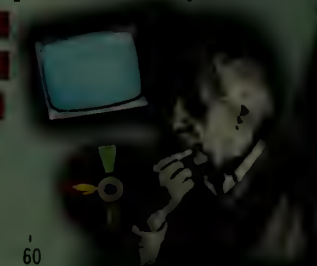
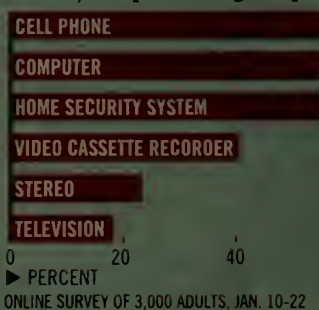
ethics to the top of the agenda, one business school thinks execs should see firsthand possible consequences of being too aggressive in the pursuit of profits. So the University of California's Smith School of Business executive education program will include a session with white-collar convicts in federal prison. "We're trying to drive at the reality behind white-collar crime," says Associate Dean Scott Koerwer. More than a dozen companies have signed up for the four-day course starting in June. There's at least one precedent for the reality check. Since the early 1990s, Pepperdine University's Graduate School of Business has sent executive MBAs to Nellis Federal Prison near Las Vegas. "These guys talk themselves into believing what they did was O.K.," says Rich Noyes, a Pepperdine grad. "But then we go back and look at what was presented in court and realize the truth." And perhaps a measure of deterrence.

Jennifer

THE BIG PICTURE

USER UNFRIENDLY

The television is the least confusing of household appliances. Below, the percentage of people befuddled by their:



ONLINE SURVEY OF 3,000 ADULTS, JAN. 10-22

Data: American Demographics/NFOW

Polls, surveys, and other items for consideration in this section should be sent to upfront@businessweek.com



YES, WE DO MANAGE A FEDERAL TAX-FREE COLLEGE SAVINGS PLAN FOR YOUR PRECIOUS LITTLE TAX DEDUCTIONS.

A federal income tax-free¹ 529 College Savings Plan is a smart way to save for college. And when it's managed by a leader in money management, it's even smarter. Contact Fidelity or your advisor to get started. Because you're not just invested. You're **personally invested**.SM

529 COLLEGE SAVINGS PLAN

NOW FEDERAL INCOME TAX-FREE¹
USE AT COLLEGES NATIONWIDE²
EASY TO GET STARTED

CALL FOR A 529 COLLEGE SAVINGS KIT TODAY

800.FIDELITY

| FIDELITY.COM

| 85 INVESTOR CENTERS



Qualified withdrawals made after December 31, 2001 are federal income tax-free. The provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 will expire December 31, 2010. Unless the law is extended by Congress, the Federal tax treatment of 529 Plans will revert to its status prior to January 1, 2002. The UNIQUE College Investing Plan, Delaware College Investment Plan, and U.Fund College Savings Plan are offered by the State of New Hampshire, State of Delaware, and Massachusetts Educational Financing Authority, respectively, and managed by Fidelity Investments. If you are not a resident of New Hampshire, Massachusetts, or Delaware, you may want to investigate whether your state offers its residents a plan with alternative tax advantages. Fidelity managed 529 College Plan Portfolios are managed by Fidelity Investments Advisers, Inc., a registered investment adviser and a Fidelity Investments company. The money can be used at accredited colleges and universities in the United States. Fidelity Brokerage Services, Member NYSE, SIPC

311353

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS: Joyce Barnathan, Frank J. Comes, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Arnst, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Peter Elstrom, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Margaret Popper, William Wolman, Seymour Zucker (Sr. contributing eds.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.), Michael S. Serrill (Sr. ed.), Robin Ajello, Pete Engardio, (Sr. news eds.), Rose Brady (Sr. writer), Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Dan Beucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khernouch, Julia Lichtblau, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: David Rocks. E-Business: Timothy J. Mullaney. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Spencer E. Ante. Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. News: John Protos. People: Susan Berfield. Personal Finance: Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports business)
STAFF EDITORS: Lewis Braham, Jeanette Brown, Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs), Jim Taibi (Asst. chief), Tim Belknap, Aleta Davies, Jack Robbins, Doug Royalty (Sr.), Giles Blunt, Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Malka Percal, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief), Céline Keating, Robert J. Rosenberg (Deputy chiefs), Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.), Nigel Cruickshank, Jamie Eliss, Edith Gutierrez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director), Rob Doyle (Deputy dir.), Laurel Dauniss Allen, Joe Calvello, Roger Kenny, Stephen Kenny, Alberto Mena, Ray Vella; Joe Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Nita Le, Rich Michiel, Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies), Anne D'Aprix, Kathleen Moore, Andrew Popper, (Assoc.), Lucy Conticello, Sarah Greenberg Morse (Asst.), M. Margarita Eiroa (Traffic mgr.), Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director), Ken Machlin-Lockwood (Mgr.), Karen Butcher, Francisco Cardoza, Thomas R. Dowd, Stephen R. Lebron, Kim Maenak, Jose L. Martin, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Y. Steve Ben-Ari, Steven McCarthy, Anoop Srivastava, Craig Sturgis, Mauro Vaisman
ONLINE: Michael Mercuro (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorff, John Johnson; Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Kharif, B. Kite, Matt Kopit, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Arney Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj, Eric Wahlgen, Heesun Wee
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad, Aixa Pascual. Boston: William C. Symonds (Mgr.), Farth Keenan, Geoffrey Smith. Chicago: Joseph Weiner (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Julie Forster, Pallavi Gogoi, Darnell Little. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), Joann Muller, David Welch. Los Angeles: Ronald Groves (Mgr.), Larry Armstrong, Christopher Palmeri (Sr. correspondents), Arlette Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Himmelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C. Hanlon, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Creaky (News ed.), Rich Miller (Sr. writer), Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents), Amy Borris, Dan Carney, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wilstrom (Tech. & You), Lorraine Woellert, Catherine Yang; Douglas Harbrecht (Online Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour. Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.). Stephen Baker, Carol Mattack, Andy Reinhardt. Rome: Gal Edmondson (Mgr.). Seoul: Moon Ilhwan. Singapore: Michael Shan (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kumi
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Robert Pondiscio (Director). Heather Carpenter. Christine Fountaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director). Susann Rutledge (Research mgr.), John Cady (Technology mgr.), Lara Chistanson, Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

THIS INTEREST RATE IS NO PASSING FAD

In "Is there really a perfect rate of interest?" (News: Analysis & Commentary, Apr. 22) Rich Miller picks the wrong target. The NAIRU (nonaccelerating-inflation rate of unemployment), which he disparages, worked exactly as expected in the 1990s. Compensation gains per employee, which slowed to only 1.9% per year in 1995, started to rise in 1996, shortly after unemployment moved below 6%, and reached 5.6% by 2000. Price inflation stayed low because of the productivity growth surge and the strong dollar. The Fed recognized this and held interest rates close to the natural rate in 1996-98, but then raised them too slowly in 1999-2000, allowing the economy to overheat and the tech-stock bubble to inflate.

The "natural rate of interest," which Miller describes as the "latest monetary fad," goes back to Swedish economist Knut Wicksell, who wrote his masterpiece *Interest and Prices* in 1898. Buried by John Maynard Keynes in the 1930s, the concept reemerged in the past 20 years as part of the synthesis of Keynesian and monetarist ideas. Miller is correct that it is often a difficult concept to use. But right now, with the economy recovering sharply and the federal funds rate at least 2% below anyone's estimate of the natural rate, there is little doubt that rates have to rise.

John Calverley
 Chief Economist and Strategist
 American Express Bank
 London

FRANCE: THE PRICE OF IGNORING REFORM

"France: Who speaks for youth?" (International Business, Apr. 22) could not

have been more timely, considering political earthquake that shook France on Sunday, Apr. 21.

Whatever the result of the legislative elections in June, the new French President, government, and parliament really need to get their act together and pass much needed reforms—raising the authority of the state, overhauling the soon-to-be-bankrupt retirement system, streamlining the public service and administration, reforming the educational system, and freeing up the economy.

If they keep delaying these unpalatable reforms over and over, the worsening situation will lead to more unrest and, probably, to an extremist rule in five years. Instead of lamenting the situation in endless speeches about democracy, French politicians should look to their history books and read about the Weimar Republic of Germany, a weak, unresponsive democracy that tried to improve the economic fate of its people can become fertile soil for extremists of all kinds.

Philippe De
 New

A CLOSER LOOK AT HCA

In "HCA is getting its strength" (The Corporation, Apr. 22), the author refers to "weekend golf vacations" offered to doctors who practice in hospitals. Federal law sets strict limits on the business courtesies that hospitals may give to their medical staffs. We have diligently implemented these laws. Such laws, as we understand them, would preclude weekend golf vacations. Our policies have for years prohibited providing any entertainment to our referring physicians that involves travel or overnight

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VPS, SALES: Mark A. Flinn (Northeast region and BWT), Karen Christiansen (Southeast reg.), Grant A. Getz (Midwest reg.)

VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maravay
VP, MANAGING DIRECTOR-ASIA: Alan Lamm
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. C.
VP, STRATEGIC PLANNING: Kimberly Greer
VP, STRATEGIC PROGRAMS: Jim Richardson
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, MARKETING: Patricia Crocker France
VP, CONSUMER MARKETING: Joyce Swingle

The McGraw-Hill Companies

BusinessWeek

MAY 13, 2002 (ISSN 0007-7135) *** 3782

Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2390127039. U.S. subscription rate \$49.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies/back issues, \$9.95. Call 1-800-268-3867 or email: busweek@mcgraw.com. Subscriber Services: 1-800-435-1200. TDD: 1-800-554-1579.

Postmaster: Send address changes to *BusinessWeek*, P.O. Box 5235, Boulder, CO 80522-3235. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post

International Publications Mail Product Sales Agreement No. 246

Registered for GST as The McGraw-Hill Companies, Inc. GST #R. Copyright 2002 by The McGraw-Hill Companies, Inc. All rights reserved. Registered in U.S. Patent Office. European Circulation Center, M. House, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 924646.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, President, and Chief Executive Officer; Kenneth M. Vittor, Executive President and General Counsel; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank D. Pengelase, Senior Vice President Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy herein for the flat fee of \$1.00 per copy of each article. Send payment to CCC. Copying for other than personal or internal reference use without permission of The McGraw-Hill Companies, Inc. is prohibited. Address for customized bulk reprints to *BusinessWeek* Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3145. ISSN 0007-7135. PRINTED IN THE U.S.A.

NO BLACKOUT DATES.



(Just one of
our many redeeming qualities.)

INTRODUCING THE NEW PRIORITY CLUB® REWARDS.

Now there's a rewards program that actually makes it easy to redeem points for rewards. No blackout dates. No points expiration. Online or phone reward redemption. And with the Priority Club Personal Shopper, you can receive personal assistance customizing your rewards. It's good to know redemption is so easy to achieve.

It's easier. Enjoy.™

Points never expire.

No blackout dates.

Transfer points
between accounts.

Fastest way to
Elite status.

3,200 locations to
earn and redeem.

The
Six Continents™ Hotels
Family of Brands:



priorityclub.com



ACCESS
GRANTED

now, more than ever,
feel secure
that only the right people
access your **Network**.

Keep your valuable data out of the wrong hands with the power of Access and Security solutions from Novell. Administrators can choose one or multiple authentication methods to identify users with absolute certainty. Users have the ease of a single enforceable ID they use anytime, anywhere—resulting in up to a 95 percent decrease in password-related help desk calls. And our software can be integrated with a full range of your existing security products, from password protection to biometrics. To have the power of Novell at your fingertips, visit www.novell.com/solutions/access_security today.

Novell.
the power to chaNge

QUESTIONS & CLARIFICATIONS

...would spoil a stock offering?" (Apr. 29) stated wrongly that Citigroup has a secondary offering of Travelers Property Casualty Corp. stock. In fact, it plans to make a tax-free exchange of stock to Citigroup shareholders of 19.2% of stock that it owns. Also, Ed ... did not work for Publishers Clearinghouse. He worked for American Family ...

...is "WorldCom?" (Information Technology, May 6), a statement from Standard & Poor's Chief Economist David Wyss re ... clarification. He meant to say that ... stock and bond prices indicate ... investors are worried the company may ... bankruptcy. He did not mean the ... as Standard & Poor's opinion.

...besieged banker" (Cover Story, Apr. ... would have said that Chemical Bank ... Texas Commerce Bank in 1987.

...is only a small part of a comprehensive ethics and compliance program at HCA Inc., which we believe is ... as an industry model.

Alan R. Yuspeh
Senior Vice-President for
Ethics, Compliance &
Corporate Responsibility
HCA
Nashville

...story implied that a recent court ... overturning the conviction of ... HCA executives for Medicare ... reflected on HCA's culpability in a ... civil-fraud case. That is wrong. ... 2000 pleaded guilty to criminal ... involving the same false claims ... e. For that crime and others, it ... total of \$95 million. Nothing in ... decision absolves HCA from its out- ... civil liability for the same ... s. The ruling focused only on the ... interpretation of the individuals' ... tion in HCA's wrongdoing.

John R. Phillips
Washington

...note: The writer is a lawyer ... former HCA employees who ... ed the company under the whis- ... per law.

DOWN THE TARIFFS CANADIAN LUMBER

...ident Bush caught flak for im- ... tariffs on steel but not for the cri- ... pities on Canadian softwood lum- ... should have been the other way

around ("Bush trade policy: Crazy-quilt like a fox," News: Analysis & Commentary, Apr. 15). The U.S. lumber industry's allegations that Canadian governments unfairly subsidize lumber production don't stand up to scrutiny. The British Columbia provincial government, for example, realizes substantial net revenues from its forests annually. By contrast, the U.S. government is losing money on heavily subsidized timber from federal lands sold to U.S. lumber companies. And now the kicker: The U.S. actually needs Canadian lumber. As a result of large-scale conservation efforts late in the past century, America is short on timber.

How U.S. lumber—a "2x4" industry in the overall scheme of the American economy—could persuade the U.S. government to raise trade barriers against Canadian lumber is a mystery to this Canuck.

Joseph Z. Bako
Vancouver

BusinessWeek online

The full text of BusinessWeek, the BusinessWeek Daily Briefing, and access to BusinessWeek archives starting in 1991 are available on the World Wide Web at

www.businessweek.com

and on America Online at Keyword: BW

How to reach BusinessWeek

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: BusinessWeek, 1221 Avenue of the Americas
43rd floor, New York, NY 10020
Fax: (212) 512-6452
Email: bwreader@businessweek.com

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>
(click "Manage Your Account")

For individual subscriptions, corporate subscriptions, and other inquiries:

Phone: (800) 635-1200 Fax: (641) 842-6101

Email: bwcustomer@neodata.com

Education Department

Phone: (203) 843-7352 Fax: (203) 876-9416

Website: www.resourcecenter.businessweek.com

Email: bw_group@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints: minimum order 1,000

Phone: (212) 512-3148 Fax: (212) 512-2337

Email: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies: \$1.80 per copy for commercial use

\$1.50 per copy for classroom use

Copyright Clearance Center: www.copyright.com

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

Email: permissions@businessweek.com

Web Site: www.businessweek.com/permissions.htm

Novell

presents
one Net
tech fact
of the week.

question:
what percentage
of businesses were
cyber attacked
in 2001?

- | | |
|--------|--------|
| a. 5% | c. 30% |
| b. 15% | d. 50% |

answer: "c"

According to InStat/MDR, one out of three businesses, from home offices to large corporations, were victims of cyber attacks. Large enterprises, while dedicating more resources to protect themselves, still fell prey to hack attacks more than any other group, with over 43% indicating they had been victims of an attack in 2001.

Disaffected employees are a major source of internal security attacks.

protect your
Network.

[www.novell.com/solutions/
access_security](http://www.novell.com/solutions/access_security)

Source: InStat/MDR

Name	Department	Location
Jessica Helnick	A1	15
Cori Kaldas	F5	2
Mark Gailbraith	F8	3
Sasha Faulkner	G-13	2
Richard Gray	B4	8
Ali Mumtaz	H5	7
Opimifer Gardner	H2	4
NICOLE MARTIN	I01	8
Vivian Wang	A4	13
Joan Mennar	B4	9
Patrick O'Neill	C3	3
Carolyn Salgado	G10	2
David Murphy	F2	9

Of course not.



route.pdf

Name	Department	Location
my ANDERSON	D3	1
Wright	F2	2
DO YOU REALLY THINK I'M GOING TO OPEN THIS UP AND PUT IT BACK, WRITE SOMEONE ELSE'S NAME ON IT, GET UP FROM MY DESK AND PLACE IT IN A SPECIAL MAILBOX???		

Adobe Acrobat 5.0 makes reliable document distribution possible.



Please, remain seated.
New Adobe® Acrobat® 5.0
makes it easier to distrib-
ute documents—both

internally and with the outside world. The full version of Adobe Acrobat 5.0 lets you deliver documents on time, looking exactly as intended. Simply convert all your documents to the universally recognized Adobe PDF format and your file is ready to e-mail or post online. Your document can be viewed, read and printed on a variety of hardware and software platforms with the free Adobe Acrobat Reader™—the one that millions of users already have. Adobe Acrobat 5.0 even includes our digital signature technology. Which gives you a more efficient way to get your critical documents signed and approved quickly. Try all that with a manila envelope. Go to www.adobe.com/fullacrobat



Training Without Travel

BusinessWeek special
advertising sections
present "E-learning:
Opportunities to Excel"

Find out more about
e-learning – how it works,
what's available, and how your
company can benefit.

Double your ROI.

A return
on intelligence
is
a return
on investment.



For advertising
information, contact
katy_redmond@businessweek.com
617-867-9835

On sale: June 21
Issue date: July 1
Ad close: May 20

BusinessWeek

A Division of The McGraw-Hill Companies

AO: keyword: BW

Books

EMBATTLED DREAMS

California in War and Peace, 1940-1950

By Kevin Starr

Oxford University Press • 386pp • \$37.50

WHEN CALIFORNIA CAME OF AGE

From the moment in 1848 when prospectors struck gold in the foothills of the Sierra Nevada, California has held a special place in the American psyche: a dreamscape for winter-weary Easterners, an Eden of sunshine, orange groves, and palm trees. But more than anything else, California has always been a destination, the end of the road for Westward migration—where a visionary or a drifter could create a vast fortune or remake a broken life. And yet, for all its allure, California has often failed to deliver the good life to those who poured in. Instead, many have found despair in the rootlessness and isolation of tawdry cities and tacky-tacky suburbs that seem to spring up overnight.

Exploring that enigmatic blend of dreams and hardscrabble reality has been Kevin Starr's lifework in his brilliant and epic social and cultural history of the state. It has been nearly 30 years since Starr published *Americans and the California Dream, 1850-1915*, his study of California's regional identity as it emerged from the Gold Rush. In this sixth volume, *Embattled Dreams, California in War and Peace, 1940-1950*, Starr, who is the state librarian and also a professor of history at the University of Southern California, tackles an equally rich subject. He recounts how California was transformed by the sweeping events of World War II and the early days of the Cold War.

Starr's interest is never just regional but encompasses the role of the Golden State in the broader American experience. For California wasn't just changed by the events of the 1940s. It played a huge part in influencing the outcome of those events. Before the war, the state—even more than the rest of the country—was isolated from the conflicts and turmoil across the seas. Californians, Starr writes, "drifted through 1940 as in

a haze of distraction," focused on the favorite radio game shows, big band dance halls, and the pursuit of outdoor living.

If Pearl Harbor was a harsh wake-up call for the country, drawing the state into war, it was a time of mass hysteria for California. Many in the state

believed their cities would be attacked next. Cities gripped with anxieties seem eerily familiar in the wake of September 11. People were quick to spot Japanese war planes where none existed. Search beams swept up the night in San Francisco. Anti-aircraft artillery guarded Los Angeles, blasting the empty sky.

Far more difficult to fathom is the rounding up of California's Japanese American population. Some 110,000 men, women,

and children were packed off to spend war years behind barbed wire in remote internment camps. Businesses were destroyed, property confiscated, and families torn apart. Indeed, before Pearl Harbor, California's antipathy toward Japan had hardened into a palpable racism and paranoia. Laws were enacted to restrict Japanese land ownership, and a U.S. Senator from California warned that intermarriage between Japanese and whites would result in a "mongrel and degenerate population." Starr believes California's anti-Japanese crusade inflamed Tokyo that it contributed to Japan's decision to attack.

The war also galvanized the state in good ways. Hollywood did its bit. Frank Capra's *Why We Fight* documentaries. Bob Hope rallied the boys abroad as did Marlene Dietrich, who once famously sparked a riot among sex-starved soldiers. Back home, California's mass mobilization moved the state, formerly manufacturing backwater, into the vanguard of American industry. To aerospace industry was born as Lockheed, Northrop, and Douglas Aircraft churned out tens of thousands of planes.





What happens if you
don't talk to your doctor
about VIAGRA?
Nothing.



When it comes to erection difficulties, such as erectile dysfunction (ED), too many men give their doctors the silent treatment.

But ED is a health condition. It can be linked to things like high blood pressure, high cholesterol, and stress, so doctors are trained to discuss it. In fact, doctors have already prescribed VIAGRA to **more than 9 million men**. Because doctors know that VIAGRA works for most men, no matter what's causing their ED.

So instead of making excuses, make an appointment with your doctor. For more information, call 1-888-4VIAGRA or visit www.viagra.com.

VIAGRA[®]
(sildenafil citrate) tablets

Join the millions. Ask your doctor if a free sample is right for you.

VIAGRA is indicated for the treatment of erectile dysfunction. Remember that no medicine is for everyone. If you take nitrate drugs, often used to control chest pain (also known as angina), don't take VIAGRA. This combination can cause your blood pressure to drop to an unsafe or life-threatening level.

Discuss your general health status with your doctor to ensure that you are healthy enough to engage in sexual activity. If you experience chest pain, nausea, or any other discomforts during sex or an erection that lasts longer than 4 hours, seek immediate medical help. The most common side effects of VIAGRA are headache, facial flushing, upset stomach. Less commonly bluish vision, blurred vision, or sensitivity to light may briefly occur.

Please see patient summary of information for VIAGRA (25-mg, 50-mg, 100-mg) tablets on the following page.



PATIENT SUMMARY OF INFORMATION ABOUT

VIAGRA
 (sildenafil citrate) tablets

This summary contains important information about VIAGRA®. It is not meant to take the place of your doctor's instructions. Read this information carefully before you start taking VIAGRA. Ask your doctor or pharmacist if you do not understand any of this information or if you want to know more about VIAGRA.

This medicine can help many men when it is used as prescribed by their doctors. However, VIAGRA is not for everyone. It is intended for use only by men who have a condition called erectile dysfunction. **VIAGRA must never be used by men who are taking medicines that contain nitrates of any kind, at any time. This includes nitroglycerin. If you take VIAGRA with any nitrate medicine your blood pressure could suddenly drop to an unsafe or life threatening level.**

What Is VIAGRA?

VIAGRA is a pill used to treat erectile dysfunction (impotence) in men. It can help many men who have erectile dysfunction get and keep an erection when they become sexually excited (stimulated). You will not get an erection just by taking this medicine. VIAGRA helps a man with erectile dysfunction get an erection only when he is sexually excited.

How Sex Affects the Body

When a man is sexually excited, the penis rapidly fills with more blood than usual. The penis then expands and hardens. This is called an erection. After the man is done having sex, this extra blood flows out of the penis back into the body. The erection goes away. If an erection lasts for a long time (more than 6 hours), it can permanently damage your penis. You should call a doctor immediately if you ever have a prolonged erection that lasts more than 4 hours.

Some conditions and medicines interfere with this natural erection process. The penis cannot fill with enough blood. The man cannot have an erection. This is called erectile dysfunction if it becomes a frequent problem.

During sex, your heart works harder. Therefore sexual activity may not be advisable for people who have heart problems. Before you start any treatment for erectile dysfunction, ask your doctor if your heart is healthy enough to handle the extra strain of having sex. If you have chest pains, dizziness or nausea during sex, stop having sex and immediately tell your doctor you have had this problem.

How VIAGRA Works

VIAGRA enables many men with erectile dysfunction to respond to sexual stimulation. When a man is sexually excited, VIAGRA helps the penis fill with enough blood to cause an erection. After sex is over, the erection goes away.

VIAGRA Is Not for Everyone

As noted above (*How Sex Affects the Body*), ask your doctor if your heart is healthy enough for sexual activity.

If you take any medicines that contain nitrates—either regularly or as needed—you should never take VIAGRA. If you take VIAGRA with any nitrate medicine or recreational drug containing nitrates, your blood pressure could suddenly drop to an unsafe level. You could get dizzy, faint, or even have a heart attack or stroke. Nitrates are found in many prescription medicines that are used to treat angina (chest pain due to heart disease) such as:

- nitroglycerin (sprays, ointments, skin patches or pastes, and tablets that are swallowed or dissolved in the mouth)
- isosorbide mononitrate and isosorbide dinitrate (tablets that are swallowed, chewed, or dissolved in the mouth)

Nitrates are also found in recreational drugs such as amyl nitrate or nitrite ("poppers"). If you are not sure if any of your medicines contain nitrates, or if you do not understand what nitrates are, ask your doctor or pharmacist.

VIAGRA is only for patients with erectile dysfunction. VIAGRA is not for newborns, children, or women. Do not let anyone else take your VIAGRA. VIAGRA must be used only under a doctor's supervision.

What VIAGRA Does Not Do

- VIAGRA does not cure erectile dysfunction. It is a treatment for erectile dysfunction.
- VIAGRA does not protect you or your partner from getting sexually transmitted diseases, including HIV—the virus that causes AIDS.
- VIAGRA is not a hormone or an aphrodisiac.

What To Tell Your Doctor Before You Begin VIAGRA

Only your doctor can decide if VIAGRA is right for you. VIAGRA can cause mild, temporary lowering of your blood pressure. You will need to have a thorough medical exam to diagnose your erectile dysfunction and to find out if you can safely take VIAGRA alone or with your other medicines. Your doctor should determine if your heart is healthy enough to handle the extra strain of having sex.

Be sure to tell your doctor if you:

- have ever had any heart problems (e.g., angina, chest pain, heart failure, irregular heart beats or heart attack)
- have ever had a stroke

The blue diamond tablet shape is a trademark of Pfizer Inc.

- have low or high blood pressure
- have a rare inherited eye disease called retinitis pigmentosa
- have ever had any kidney problems
- have ever had any liver problems
- have ever had any blood problems, including sickle cell anemia or leukemia
- are allergic to sildenafil or any of the other ingredients of VIAGRA tablets
- have a deformed penis, Peyronie's disease, or ever had an erection that lasted more than 4 hours
- have stomach ulcers or any types of bleeding problems
- are taking any other medicines

VIAGRA and Other Medicines

Some medicines can change the way VIAGRA works. Tell your doctor about **any medicines** you are taking. Do not start or stop taking any medicines before checking with your doctor or pharmacist. This includes prescription and nonprescription medicines or remedies. Remember, VIAGRA should never be used with medicines that contain nitrates (see *VIAGRA Is Not for Everyone*). If you are taking a protease inhibitor, your dose may be adjusted (please see *Finding the Right Dose for You*). VIAGRA should not be used with any other medical treatments that cause erections. These treatments include pills, medicines that are injected or inserted into the penis, implants or vacuum pumps.

Finding the Right Dose for You

VIAGRA comes in different doses (25 mg, 50 mg and 100 mg). If you do not get the results you expect, talk with your doctor. You and your doctor can determine the dose that works best for you.

- Do not take more VIAGRA than your doctor prescribes.
- If you think you need a larger dose of VIAGRA, check with your doctor.
- VIAGRA should not be taken more than once a day.

If you are older than age 65, or have serious liver or kidney problems, your doctor may start you at the lowest dose (25 mg) of VIAGRA. If you are taking protease inhibitors, such as for the treatment of HIV, your doctor may recommend a 25 mg dose and may limit you to a maximum single dose of 25 mg of VIAGRA in a 48 hour period.

How To Take VIAGRA

Take VIAGRA about one hour before you plan to have sex. Beginning in about 30 minutes and for up to 4 hours, VIAGRA can help you get an erection if you are sexually excited. If you take VIAGRA after a high-fat meal (such as a cheeseburger and french fries), the medicine may take a little longer to start working. VIAGRA can help you get an erection when you are sexually excited. You will not get an erection just by taking the pill.

Possible Side Effects

Like all medicines, VIAGRA can cause some side effects. These effects are usually mild to moderate and usually don't last longer than a few hours. Some of these side effects are more likely to occur with higher doses. The most common side effects of VIAGRA are headache, flushing of the face and upset stomach. Less common side effects that may occur are temporary changes in color vision (such as trouble telling the difference between blue and green objects or having a blue color tinge to them), eyes being more sensitive to light, or blurred vision.

In rare instances, men have reported an erection that lasts many hours. You should call a doctor immediately if you ever have an erection that lasts more than 4 hours. If not treated right away, permanent damage to your penis could occur (see *How Sex Affects the Body*).

Heart attack, stroke, irregular heart beats, and death have been reported rarely in men taking VIAGRA. Most, but not all, of these men had heart problems before taking this medicine. It is not possible to determine whether these events were directly related to VIAGRA.

VIAGRA may cause other side effects besides those listed on this sheet. If you want more information or develop any side effects or symptoms you are concerned about, call your doctor.

Accidental Overdose

In case of accidental overdose, call your doctor right away.

Storing VIAGRA

Keep VIAGRA out of the reach of children. Keep VIAGRA in its original container. Store at room temperature, 59°–86°F (15°–30°C).

For More Information on VIAGRA

VIAGRA is a prescription medicine used to treat erectile dysfunction. Only your doctor can decide if it is right for you. This sheet is only a summary. If you have any questions or want more information about VIAGRA, talk with your doctor or pharmacist, visit www.viagra.com, or call 1-888-4VIAGRA.

23-5515-00-4

June 1999

VIAGRA
 (sildenafil citrate) tablets

Books

a year. Henry J. Kaiser and others formed similar feats in shipbuilding.

Starr takes us inside humming factories to witness a social revolution: more men and women worked side by side. At first, weapons makers were nervous, insisting women wear baggy denim outfits and warning them not to mingle. That hopeless strategy gave way to morale-boosting dances and modeling jobs—creating a launchpad for Douglas Aircraft worker Norma Baker, later Marilyn Monroe.

The industry also provided large-scale employment for African Americans, who flocked to the state. Along with the often came subsidized housing, free medical care, and meals served up in cafeterias seating 2,000 workers at a time. Writes Starr: "For a few brief years, shipbuilding and aviation... California showed forth the possibilities of an industrial culture keyed to worker activity, productivity and self-esteem."

War moved the state from a manufacturing backwater, into the vanguard of U.S. industry.

Industrial culture keyed to worker activity, productivity and self-esteem.

Tireless enthusiasm is one of Starr's great assets. He fills a vast canvas with graceful writing, providing a dash of photography or a discussion of a pop book or movie here, a treatment of architectural trends there. Sexual misadventures, famous murder cases, racial tensions, class divisions, and Hollywood gossip—Starr puts it all to use. Yet, with his gracious appetite, Starr sometimes overindulges. Do we really need to know all about Governor Earl Warren's father's struggles as a boy in Minnesota?

Still, such brief lapses are a small price to pay in exchange for a journey into Kevin Starr's California. He wraps up with a frightening account of World War politics and how Richard Nixon and others rode the Red Scare to prominence, even as they destroyed careers and lives in the process.

Starr has plenty of great material ahead of him. One can imagine how he goes to town on Ronald Reagan, Disneyland, the Beach Boys, the Summer of Love, Silicon Valley, Mike Milken, O.J. Simpson. Bring it on, Kevin Starr. BY ERIC SCHINELIV Associate Editor *Schineliv* California from 1988 to



STANDARD & POOR'S TAUGHT HIM HOW TO READ FINANCIAL MARKETS.

BUSINESSWEEK TAUGHT HIM HOW TO READ MARKET SHIFTS.

McGraw-Hill EDUCATION TAUGHT HIM HOW TO READ.

The McGraw-Hill Companies

From finance to business, and education to almost any industry you can imagine,
The McGraw-Hill Companies provides information that is critical to every part of our lives.

www.mcgraw-hill.com NYSE: MHP

Education

STANDARD
& POOR'S

BusinessWeek

platts

AVIATION WEEK

McGraw Hill
CONSTRUCTION

BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

IS BILL GATES CRYING WOLF?



He says the states' antitrust remedies would stifle innovation at Microsoft. Not likely

When William H. Gates III finally took the witness stand in the Microsoft antitrust case on Apr. 20, he made an effective case for the many benefits that Microsoft has brought to personal computing. By driving down costs and providing a standardized platform in the early days of the industry, Microsoft Corp. enabled two decades of explosive growth.

Unfortunately for Gates and his company, the current court proceedings before Judge Colleen Kollar-Kotelly aren't concerned with Microsoft's historical contributions. The issue before the court is what should be done to remedy antitrust violations found in a trial and unanimously upheld by the Court of Appeals. And here Gates's over-the-top arguments against the sanctions proposed by nine state attorneys general put him on far shakier ground.

I'm not a big fan of the state AGs' proposed remedies because I think they would do only a bit better than the agreement between Microsoft and the U.S. Justice Dept. at preventing future abuses. In particular, I think the demand that Microsoft offer a version of Windows for PCs stripped of such popular components as the Internet Explorer Web browser and Windows Media Player is silly. The browser wars are long over. And while there is serious competition in media players, many computer makers already ship PCs with both Microsoft's Media Player and RealNetworks' player installed.

Gates's claim that marking some features of Windows optional would "turn back the clock on Windows development by 10 years" and lead to mass layoffs and other catastrophes is absurd. Although it wasn't pointed out until the third day of cross-examination, Microsoft already sells such a product, called Windows XP Embed-

ded. This version, intended for special-purpose devices such as smart cash registers, allows signers to pick only those components of Windows that they need, greatly reducing the demands on memory and other hardware.

In his defense, Gates said that a mix-and-match Windows for PCs would create chaos because applications developers would not know which components were installed on any particular computer. But he sells Microsoft's abilities short. Microsoft Office is built in just this "componentized" way. If a program needs an Office feature that is not available, the user is asked to install it. Some programs come with Office but are not installed by default; some, like the Visio drawing package, are sold separately; some, such as the Math equation editor, are sold by third parties. The same approach can work for Windows.

Gates had a stronger point in opposing the better proposals made by the states, companies such as Computer, which provide hardware or software that must work with Windows, be given access to the actual programs, the "source code" that make Windows work. The fear is that competitors would be able to help themselves to Microsoft's intellectual property.

This fear is not unfounded. Although the code is protected by both copyright and patent law, Microsoft would end up exposing trade secrets of the company, which has never conceded wrongdoing, ignoring an important point: It



DECODED

Gates fears giving up trade secrets. He's right—but the law was broken

the law and is not entitled to guarantees that the remedies not be painful.

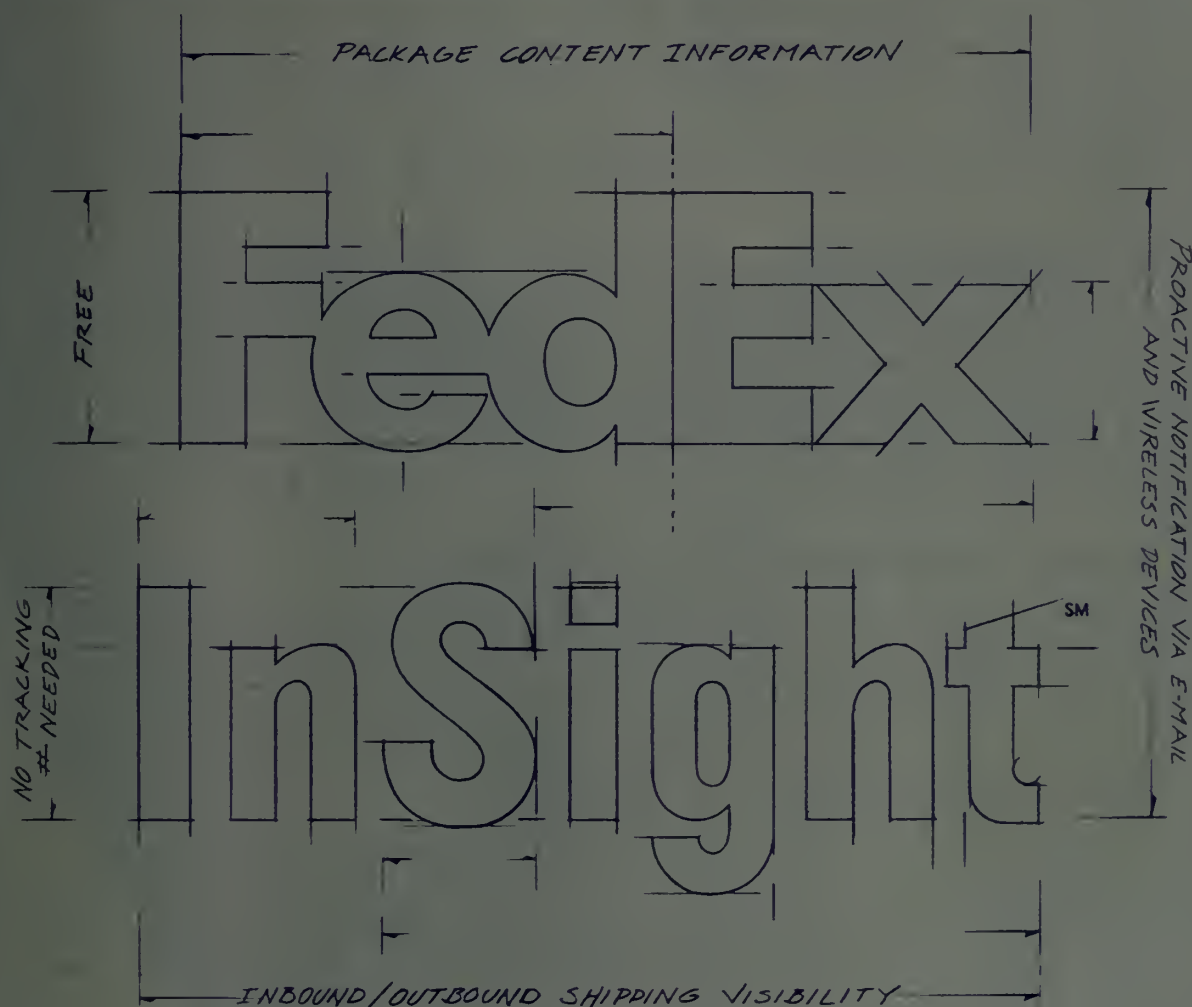
Judge Kollar-Kotelly should keep one thing in mind as she works her way through this case. Microsoft claims government restraint would ruin its ability to innovate. But the evidence suggests that competition, not freedom, kills innovation. Today, Microsoft is investing heavily in Web services, where its .Net initiative is challenged by IBM, Sun Microsystems, and others. It is also showing creativity in handheld devices, where PocketPC must contend with Palm and handset makers.

Both the government and Microsoft argue that this case is about innovation. Microsoft has proven technical ability to give computer manufacturers, which operate in a fiercely competitive industry, the freedom to pick and choose which Windows components are installed. So while the specifics of the componentized Windows program may be off the mark, the concept could well give consumers more, and better, choices.

BusinessWeek online

FOR A COLLECTION OF PAST COLUMNS and online-only reviews of technology products, go to Technology & You at www.businessweek.com/technology/

Introducing the most innovative
shipment information technology.



- MANAGE YOUR SHIPPING TO BENEFIT YOU AND YOUR CUSTOMERS
- USE YOUR ADDRESS OR ACCOUNT NUMBER TO TRACK SHIPMENTS
- KNOW WHERE YOUR SHIPMENTS ARE NO MATTER WHERE YOU ARE
- FEDEX INSIGHT. ONLY FROM FEDEX. TO GET IT, GO TO FEDEX.COM

Need to see what's coming,
what's going and what's inside?
Don't worry. There's a FedEx for that.SM

FedEx
fedex.com

Introducing Fujitsu Consulting—a partner who shares your vision

In times like these, you can't afford to work with a consultant who's single-minded. You need a company that understands the true meaning of collaboration. At Fujitsu Consulting, we share your vision right from the start, and we never lose sight of your business goals throughout the process. This has always been our approach, one that further benefits from the expertise and resources of the entire Fujitsu group, which has long provided world-class IT products and platforms all over the globe.

Unique ROI-focused methodology

As a forward-thinking global consulting organization, we utilize a unique, proven methodology that delivers a rapid and measurable return on your IT investment. It starts by focusing on the results the client expects to achieve. It then provides a road map through the design, implementation and operation of the solution to achieve the desired results.

Industry and business-process knowledge

Fujitsu Consulting creates tailored solutions for a variety of industries—in particular, communications, financial services, and government. Whether it's core back office, front office or extended functions, we enable companies to better serve their customers and collaborate with their extended supply chain of employees, vendors and partners.

Fujitsu Consulting—the new alternative

In creating powerful IT solutions, we live and breathe three simple ideas: deep collaboration with our clients, an eye-to-eye approach, and a passion for getting the job done. It is the unique combination of global scope and human scale that sets us distinctly apart from our competitors. And, perhaps, earns us a spot on your short list of consulting partners.

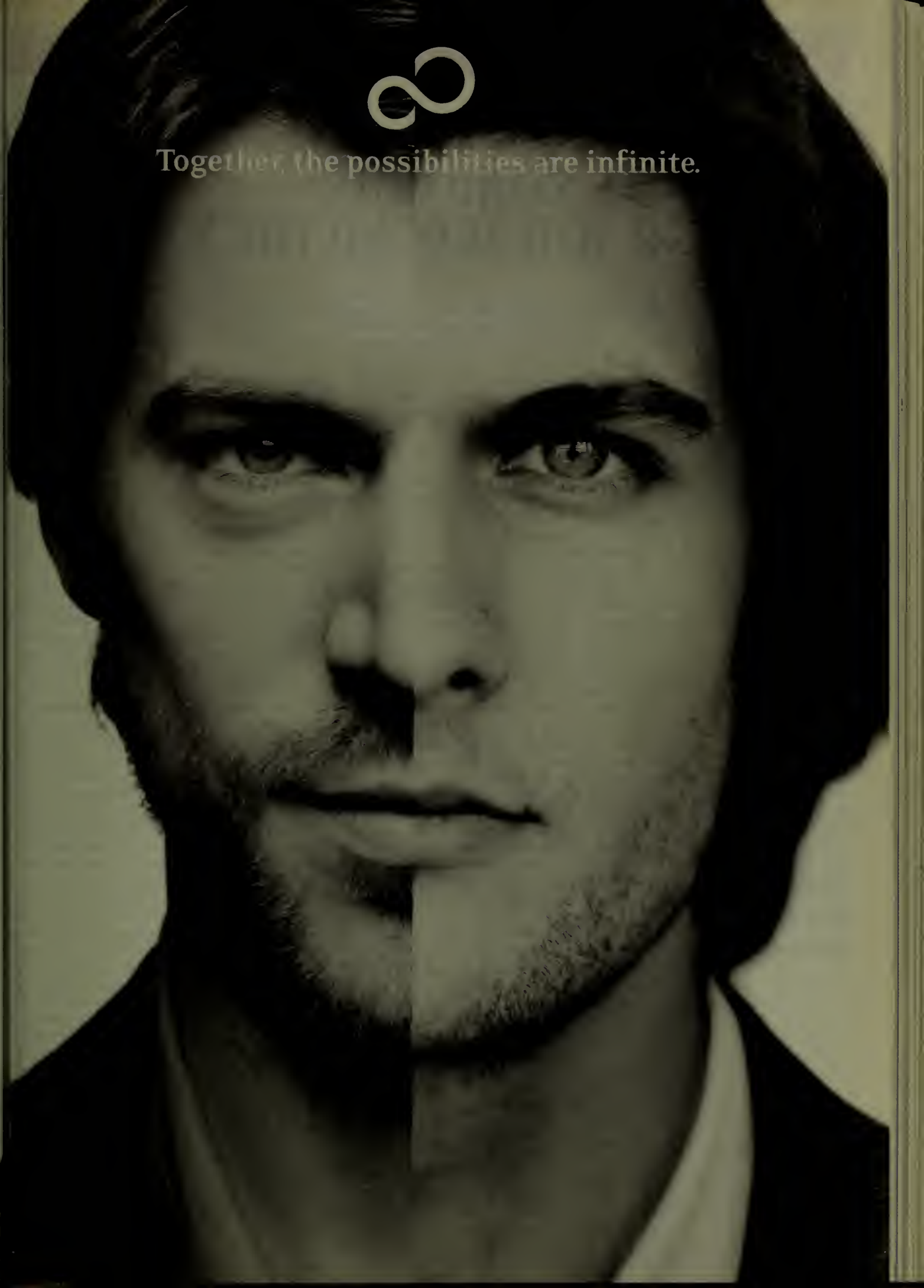


THE POSSIBILITIES ARE INFINITE

us.fujitsu.com



Together, the possibilities are infinite.



BY JEFFREY E. GARTEN

CORPORATE STANDARDS: RAISE THE BAR AROUND THE WORLD



UPGRADE:
There's lots
to do to
improve
governance
in the U.S.,
but in a
global
economy,
reforms
must take
place
abroad, too

Jeffrey E. Garten is dean of the Yale School of Management. A former investment banker, Garten is the author of *The Mind of the C.E.O.* (jeffrey.garten@yale.edu).

Although the Enron and Arthur Andersen debacles reveal cracks in the foundations of America's financial markets, there is now an imperative to fix not only the problems at home but to push for higher corporate governance standards abroad. After all, the marketplace is global. Institutional investors such as Fidelity Investments and the California Public Employees' Retirement System now hold \$2 trillion in foreign equities, up from virtually zero a decade ago. The New York Stock Exchange and the Nasdaq together have listed nearly 1,000 foreign companies. A strictly American approach to corporate governance won't protect U.S. investors nor satisfy the needs of an international market.

The top priority is for the Securities & Exchange Commission to begin embracing international accounting standards, ultimately as a replacement for the American system. It should work closely with the London-based International Accounting Standards Board, chaired by former Federal Reserve Chairman Paul A. Volcker, to create one global accounting framework. The current scandals demonstrate that the U.S. financial reporting model, devised generations ago for an industrial age, needs an overhaul. That model places a higher priority on meeting the letter of the law than on presenting a clear and honest picture of a business and its prospects. It should be improved in terms of accounting for off-balance-sheet entities, stock options, intangible assets, and much more. As KPMG Chairman Steven Butler put it at a conference: "In our post-industrial economy, our accounting system doesn't do a good job of describing any modern company."

The SEC should also establish national standards relating to the qualifications and responsibilities of boards of directors by refining the definition of what constitutes an independent director and specifying the duties of the audit and compensation committees. Although compliance should be voluntary, any company operating in the U.S. that does not conform to all the principles should be asked to explain why. There should be no legal sanctions; with disclosure, the market will render its own judgments.

As both the NYSE and Nasdaq proceed to upgrade corporate governance standards for their members, they should also institute the comply-or-explain procedure for their non-American listings. The two exchanges should also work with their counterparts in London, Frankfurt, Hong Kong, and Tokyo to press for higher governance

standards, starting with a series of corporate summits on the subject.

Global financial institutions represent another set of challenges. Bank holding companies such as Citigroup are regulated by the Federal Reserve, but broker-dealers—Goldman, Sachs & Co., for example—report to the SEC. In Britain, the Financial Services Authority supervises both banks and insurance companies. Given that large financial conglomerates own similar businesses, their disparate regulatory regimes should agree on the best common set of governance practices for all of them.

Standard & Poor's and Moody's Investors Service should develop metrics to evaluate corporate governance practices and include them in credit ratings. With SEC encouragement, the Big Five accounting firms should be working with regulatory authorities and clients around the world to tighten auditing procedures. International investors like Vanguard Group Inc. and TIAA-CREF should publicly identify the best and worst-governed companies.

The stakes are high not just for investors but for the global economy. Ira M. Millstein, senior partner at Weil, Gotshal & Manges LLP, made this point to me in an interview: "Good corporate governance protects shareholders' interests and therefore leads to more investment from the U.S. and elsewhere into developing countries."

The research of my Yale School of Management colleague, Florencio López-de-Silanes, who directs the school's new International Institute for Corporate Governance, shows that the quality of governance influences companies' access to capital, as well as the size and vibrancy of a country's capital markets. His work demonstrates why, in a financial crisis, the stock markets of countries with poor governance crumble—as they have in Indonesia and the Czech Republic—while those with higher governance standards suffer far less—as have Poland and Chile. Princeton University's James S. Paine believes that governance problems underlie major trade disputes in steel, semiconductors and aircraft, where corporate directors subordinate profits to the protection of market share. He is working on a project at the Council on Foreign Relations examining how the U.S. can promote good corporate governance abroad.

From Brussels to Beijing, there is growing awareness that problems relating to audit transparency, and boards of directors need our attention. It's an important moment. For regulators and CEOs should take advantage of it.



*In business, the most important information is always in the fine print. So here it is. Sprint serves over 94% of the Fortune 500. The Sprint OC-192-enabled IP backbone carries over 1/4 of the world's Internet traffic. And Sprint has been named *Information Week's* #1 information technology innovator in the telecom industry — for three years in a row. For more of the big picture, visit sprint.com/fineprint

BY GENE KORETZ

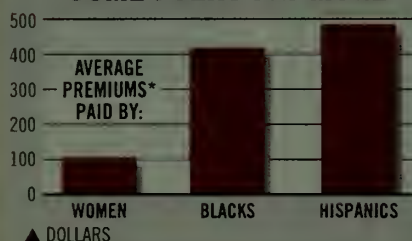
THE WEB'S ROLE AS EQUALIZER

Its use quells price discrimination

Do minorities shell out more for new cars than other purchasers of identical vehicles, as some observers claim? The results of past research on the question have been mixed.

In a 1995 study, for example, researchers reported that a group of carefully trained black male and female

BUYING A NEW CAR: SOME FOLKS PAY MORE



*EXTRA PAYMENTS COMPARED WITH OTHER CONSUMERS. BASED ON 1999-2000 SURVEY OF 750,000 PURCHASES.

Data: Fiona Scott Morton, Florian Zettelmeyer, Jorge Silva-Risso

prospective car purchasers were offered far higher new-car prices (\$1,100 and \$410 higher, respectively) by Chicago-area dealers than those offered to similarly trained white males. However, another paper, analyzing data drawn from a nationwide survey of consumers, turned up little difference in prices paid by different racial groups.

A new National Bureau of Economic Research study by Fiona Scott Morton, Florian Zettelmeyer, and Jorge Silva-Risso may resolve the issue. Using reports on 750,000 actual purchases in 1999 and early 2000, provided by J.D. Power & Associates Inc., it confirms that African Americans, Hispanics, and—to a lesser extent—women do pay more for new cars than other buyers.

The results indicate that blacks, Hispanics, and women, on average, paid premiums of roughly \$423, \$483, and \$105, respectively, for a typical new car in the \$21,000 range. After adjusting for such factors as income and education that may affect price negotiations, the researchers estimate that blacks still paid about \$315 more and Hispanics \$231 more than other purchasers.

The authors have no way of telling how much of this difference, if any, reflects racial or ethnic discrimination. But whatever the cause, the good news is

that using the Internet appears to make such price discrimination disappear.

Of the car sales analyzed in the study, roughly 3% were initiated by contact with a dealer via Autobytel.com. This leading Internet referral service not only provides consumers with detailed information about individual cars and current market conditions but also forwards specific purchase requests to a member of its extensive dealer network. The dealer then contacts the consumer and negotiates a price, typically by phone or e-mail.

Buying cars via the Web can result in lower prices for a variety of reasons—by making consumers more knowledgeable and increasing comparison shopping, for example, by making it more difficult for dealers to identify shoppers' personal traits, or by reducing marketing costs. The study finds, in fact, that simply using Autobytel.com cut costs for the average buyer, regardless of race or gender, by about 2%, or \$400.

More important, because using the Web also eliminated the extra premiums paid by blacks and Hispanics, their costs fell even more—by some \$650.

All of which, note the authors, points to a painful irony: "Disadvantaged minorities, who are far less likely to use a computer than others, are also the group that would most benefit from it."

MARRIAGE'S 'UNIQUE EFFECT'

Exploring its wage-earning power

Economists and social observers have long been intrigued by the tendency of married men to earn significantly more than single men. Some think it's because women tend to select mates with good earnings prospects or because freedom from housework allows husbands to focus more on their jobs. But others, including many conservatives, argue that being married tends to make men more responsible and diligent.

A new study in the journal *Economic Inquiry* suggests that the conservatives may have a point. Leslie S. Stratton of Virginia Commonwealth University examined the earnings histories of married men and found that the marital wage premium holds up, even after adjusting for age, education, and job experience. Moreover, the pick-up in wage growth starts soon after men marry and continues as long as their marriages endure.

Merely cohabiting—living with a

woman without being married—does not have the same effect, the study finds. Cohabiting men do earn more than single men living alone, but the wage advantage is smaller—about 10% compared to 22% for married men. Further, Stratton finds that the premium for cohabiting men is related to their living arrangements but disappears after adjusting for personal characteristics.

Thus, says Stratton, marriage appears to have "a nearly unique effect on productivity." While the results rule out the possibility that freedom from household burdens contributes to this effect, they also suggest that the institution of marriage itself could have a potent effect on men's work motivation.

WAL-MART VS. INFLATION

The discounter forces prices down

One reason the Federal Reserve is less concerned about inflation than the European Central Bank, say economists at UBS Warburg, is the deflationary impact of America's more competitive retail environment.

As evidence, they point to a UBS survey of the impact of Wal-Mart Stores Inc. on grocery prices in markets where its Supercenter stores have been undercutting traditional supermarket chains. In such areas, the study found that rivals' prices for grocery items were as much as 27% to 30% higher than Wal-Mart's, with the average discount offered by Wal-Mart for a comparable basket of goods amounting to about 20% (table).

The researchers also found that Wal-Mart's presence forces down rival prices—some 13% lower than in markets where Wal-Mart isn't a factor.

Wal-Mart opening more Supercenters and smaller grocery-focused outlets, price competition is heating up.

That spells less pressure on U.S. household budgets than in Europe where grocery competition is less intense. And, of course, less pressure on the Fed to step on the monetary brakes.

THE WAL-MART EFFECT

WAL-MART'S PRESENCE VERSUS THOSE OF OTHER RIVAL GROCERY CHAINS

MARKET AREAS	PERCENTAGE LOWER
LAS VEGAS	-19%
HOUSTON	-19%
TAMPA	-20%

*AVERAGE PRICES IN 2002 FOR SIMILAR BASKET OF GROCERY ITEMS

Data: UBS Warburg

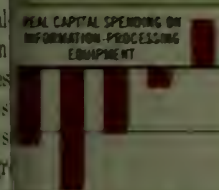
JAMES C. COOPER & KATHLEEN MADIGAN

HIS RECOVERY SN'T GOING TO STALL OUT

Factors that were holding the economy back are now giving it a boost

U.S. ECONOMY Business leaders and investors have a lot on their minds these days. Uncertainties over the Middle East, oil prices, and terrorism. Ongoing Enron Corp. and accounting fallout. And now, concerns over the liability of Wall Street brokerages stemming from the activities of their analysts (page 36). All this is casting a pall over how people value companies via the financial markets and how they feel about future investment decisions. However, the latest data on the economy strongly suggest that any gloomy view should not extend to assessments of the recovery. The economy grew at a robust 5.8% annual rate in the first quarter, suggesting a strong productivity gain last quarter and an increase in profits. Moreover, inflation is a no-show, workers' purchasing power is up sharply, and the Federal Reserve is likely to keep monetary policy extremely stimulative.

TECH OUTLAYS TURN THE CORNER



Other 2.7 points. This near-equal mix of inventories and demand is essential for a sustained upturn. Equally critical for the outlook is that demand is leading beyond consumers. Exports grew last quarter, tech outlays began to recover (chart), and businesses are spending on old-line machinery. In addition, the latest survey of companies by the National Association for Business Economics shows a steep increase in first-quarter demand, which was evident in almost all industry groups. That means this recovery will not have to depend on one sector to provide momentum.

BE SURE, second-quarter growth is slowing from first-quarter's blistering pace, which was boosted by several special factors: Unusually good weather helped shipping, military spending boosted government outlays, and the rapid shift in inventory positions won't be repeated this quarter. But all this is neither a revelation nor cause for worry. Keep in mind that growth was

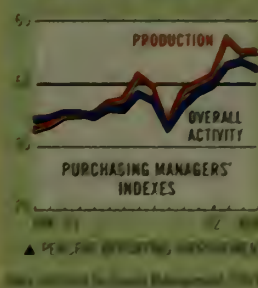
borrowed from the second quarter, not the second half.

The industrial sector began the second quarter in good shape. The nation's purchasing managers said that industrial activity continued to rise in April, although at a slower pace than in March, with broad gains in production, orders, and prices—all signs of improving demand (chart).

Already in the first quarter, sectors that had been drags on GDP growth are now contributing to demand. For example, real exports rose at a 7% pace last quarter, the first increase since the summer of 2000. The gain was all in services, but exports of goods dipped only 1%, after huge losses last year, which cut a half-point from 2001's GDP growth. As the global recovery gains strength, exports will pick up further.

Overall net exports, the tally of exports minus imports, subtracted 1.2 percentage points from the quarter's GDP gain. But, again, that's an indication of the strength of demand: Domestic spending pulled in a flood of foreign-made goods last quarter. Imports surged 15%, swamping the gain in exports. Adding spending on imports back to the mix, domestic demand grew 3.7%, about the same as the fourth quarter's 3.9% pace.

APRIL INDUSTRIAL ACTIVITY HOLDS UP



SOME OF THAT INCREASED DEMAND is coming from companies. Overall business outlays for equipment and software fell 0.5% last quarter, but that reflected a 24.5% plunge in transportation equipment, mainly cars and trucks, which had been boosted in the fourth quarter by special sales incentives.

Business spending on information-processing gear, about half of the total, rose 7.5% last quarter, the first rise in more than a year. And purchases of traditional industrial machinery jumped 16%, also the first increase in a year. Corroborating these gains, first-quarter industrial output of tech equipment jumped 17%, and imports of capital goods surged 27%. Both were the largest increases in more than a year and a half.

The capital-equipment sector is in the early stages of an upturn, which will gather speed when businesses come to appreciate that demand is firming and that profits are turning around. Indeed, many companies

Business Outlook

have projects with high expected returns sitting on the drawing board, just waiting for the go-ahead.

You can't blame businesses for being cautious after one of the worst collapses in profits in the postwar era. However, the profits outlook is rapidly improving. The GDP data suggest that productivity grew at an annual rate of about 7% last quarter, after a 5.2% surge in the fourth quarter. That would be the largest two-quarter gain in nearly 20 years—and unit labor costs will post the largest two-quarter drop since then.

The result: Despite weak pricing power, profit margins are widening, and economywide earnings, measured by the Commerce Dept., will post a solid advance when the data are released on May 24. Keep in mind that the earnings of the 500 companies in Standard & Poor's stock index are not added up the same way. And while the S&P earnings are important to stock prices, they do not represent the makeup of the overall economy.

A RETURN OF CAPITAL SPENDING and foreign demand will take the pressure off consumers, who have led this recovery with a 6.1% jump in spending in the fourth quarter and a 3.5% advance in the past quarter. Households cannot maintain that pace as they deal with higher fuel prices and waning stimuli from tax cuts and mortgage refinancings.

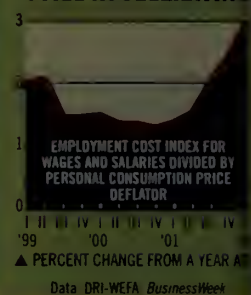
However, consumer spending still has plenty of sup-

port, and households remain optimistic despite all the uncertainties. The Conference Board's index of consumer confidence slipped to 108.8 in April, from 110.7 in March, but it held on to nearly all of its 15.7-point jump in March. Crucially, households' assessments of job-market conditions have stopped falling.

Confidence is holding up because, despite meager job growth, workers are generally seeing big increases in the buying power of their pay. The first-quarter employment-cost index, which covers pay and benefits, grew 3.9% from a year ago. Although that pace has slowed somewhat, it far exceeds that of inflation. In fact, real wages over the past year have grown 3%, twice as fast as the pace of time last year (chart). Even excluding the bonus from cheaper energy, real wages are still up 2.5%.

At some point, CEOs' decisions to delay capital spending plans and investors' desires to hoard cash and bonds will no longer make economic sense. Indeed, given that stocks and bonds appear to be priced based more on current worry than on current reality, so many market surprises could be in store later this year, as the evidence of a lasting recovery continues to mount.

REAL WAGE GROWTH IS STILL ACCELERATING



GERMANY

GROWTH COMES CREEPING BACK

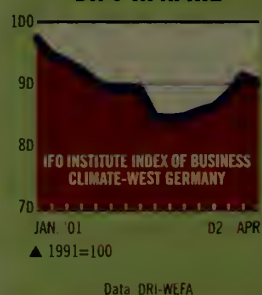
Germany's economy is recovering, as industrial activity begins to stabilize, but growth this year will lag behind the rest of Europe, mainly because of an ailing consumer sector. New uncertainties over labor unrest and the September elections, as Chancellor Gerhard Schroeder struggles to retain control, also cloud the outlook.

First-quarter real gross domestic product, to be reported on May 23, is expected to post a slim gain, although remaining slightly below its year-ago level. Momentum will build gradually, with growth anticipated to average only 1% this year and 2.5% to 3% in 2003.

The household sector is still

feeling the effects of higher-than-expected inflation and unemployment. February retail sales fell for the third month in a row, and March car registrations dropped. First-quarter retail sales are run-

BUSINESS CONFIDENCE DIPS IN APRIL



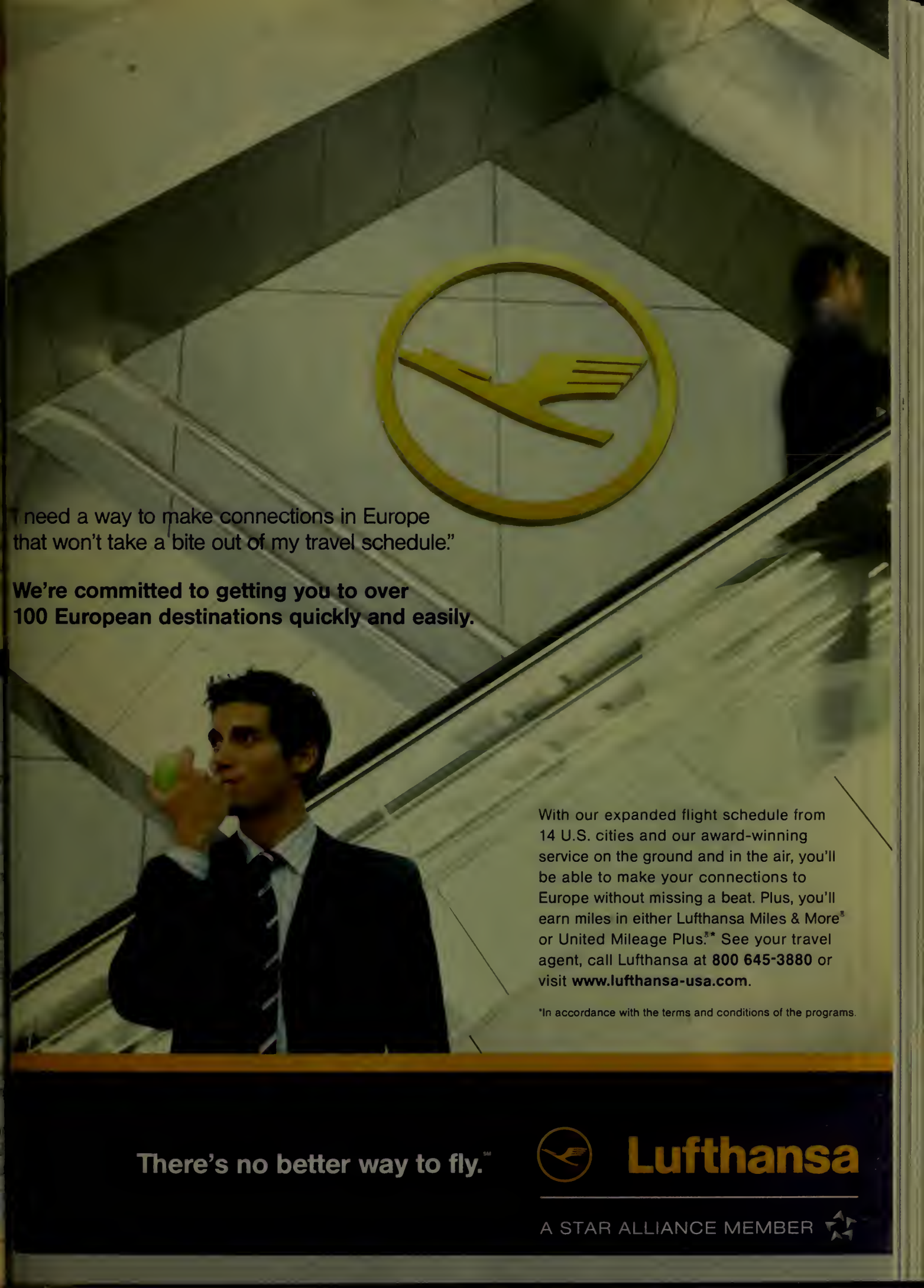
ning below fourth-quarter levels. The good news is that inflation slowed in April to 1.6%, from 1.8% in March, as recent surges in food and energy began to wane. Inflation should continue to edge lower, if oil prices behave.

But wages are a new risk. IG Metall, Germany's second-largest union, voted on Apr. 30 to begin selective strikes by May 6, the first major job action since 1995. Talks collapsed when the union rejected a 3.3%

wage hike. It is holding out for 4%, a level that could limit the recovery by lifting costs when companies have little pricing power.

A stronger industrial sector is crucial to better job growth. Growth in 2003 should put unemployment back on a downward path, but joblessness would stay stuck at about 9.6% this year and remain above 9% until late next year. March joblessness declined due to make-work programs.

Business sentiment, which had been moving up, fell in April, as retailers and wholesalers lost faith. Businesses' assessments of current conditions are still falling, suggesting that demand is not validating earlier optimism. May sentiment could drop, as well, if labor strife lifts uncertainty. That could mean little pickup in second-quarter GDP growth.



"I need a way to make connections in Europe that won't take a bite out of my travel schedule."

We're committed to getting you to over 100 European destinations quickly and easily.

With our expanded flight schedule from 14 U.S. cities and our award-winning service on the ground and in the air, you'll be able to make your connections to Europe without missing a beat. Plus, you'll earn miles in either Lufthansa Miles & More® or United Mileage Plus.®* See your travel agent, call Lufthansa at 800 645-3880 or visit www.lufthansa-usa.com.

*In accordance with the terms and conditions of the programs.

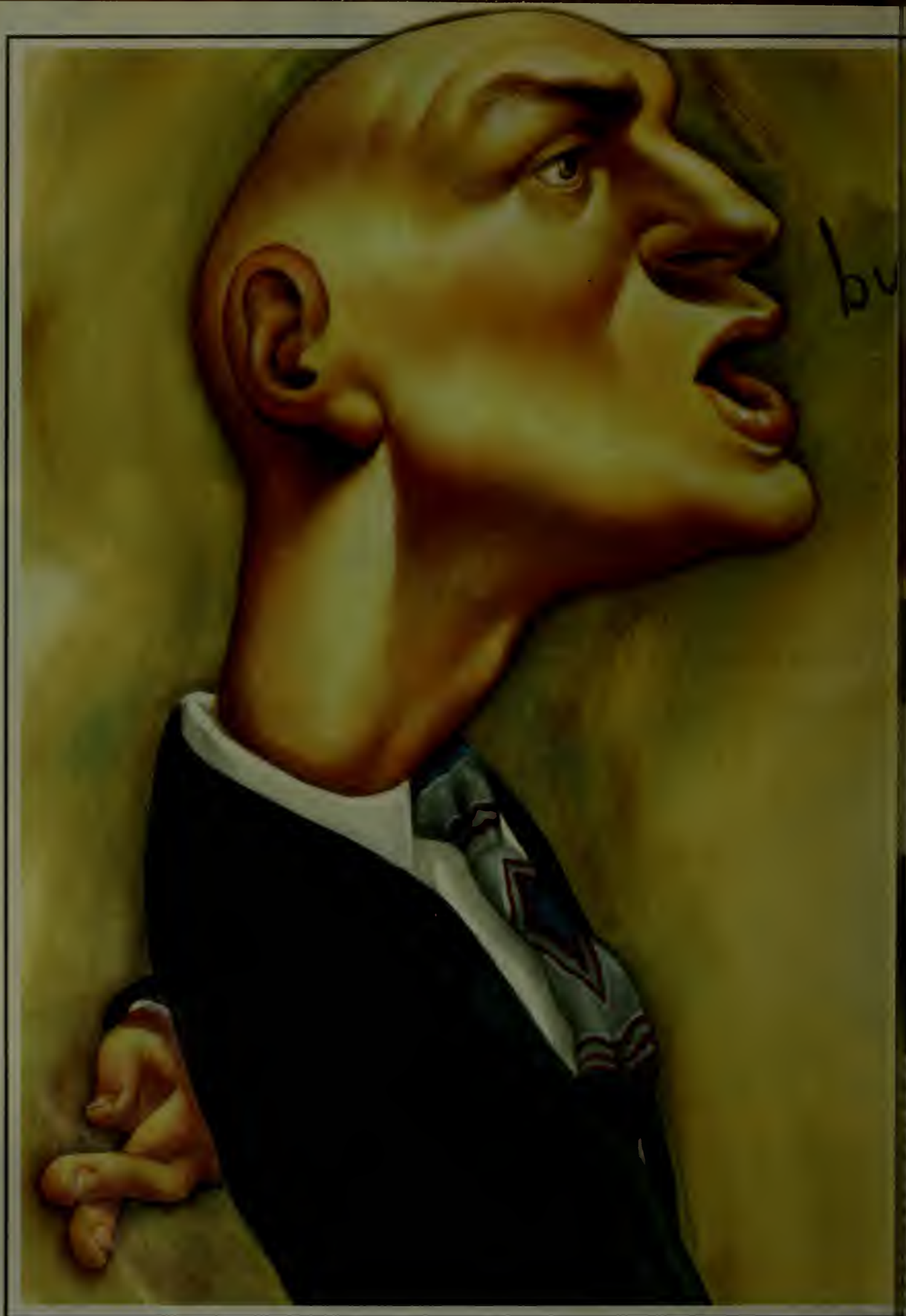
There's no better way to fly.™



Lufthansa

A STAR ALLIANCE MEMBER





HOW CORRUPT IS WALL STREET?

New revelations
have investors
baying for blood,
and the scandal
is widening

When Debases Kanjilal, a Queens (N.Y.) pediatrician, picked up his phone in early 2001 to call lawyer Jacob H. Zaman-sky, he had no idea he would whip up a full-fledged hurricane on Wall Street. Kanjilal claimed he lost \$500,000 investing in Infospace Inc., an

stock he says his Merrill Lynch broker urged him not to sell when trading at \$60 a share. By the end of the year, it was down to \$11. Zaman-sky filed a novel arbitration claim against Merrill in March, 2001, in which he alleged that its star Net analyst, Henry Kanjilal, had misled investors by promoting the stocks of companies in which the firm had investing relationships. That lawsuit led to an investigation by New York State Attorney General Eliot Spitzer that stunned Merrill and its Wall

Street brethren three weeks ago when he made public some shocking e-mail exchanges between Merrill analysts and bankers.

That was just the start. Now, Spitzer is investigating Salomon Smith Barney, Morgan Stanley Dean Witter, and at least three others. The Securities & Exchange Commission has launched a probe into practices at 10 firms, while the Justice Dept. is pondering an inquiry of its own. And plaintiffs' lawyers are advertising for clients and filing new suits daily.

The widening scandal has plunged Wall Street into crisis. The resulting furor is more thunderous than the one unleashed by Michael R. Milken's junk-bond schemes in the 1980s, the Prudential Se-

curities limited-partnership debacle in the early '90s, or price-fixing on the Nasdaq later in the decade. In part, that's because many more individuals lost money in the recent market collapse than on earlier scandals.

But uproar over the relationships between analysts and their investment banking colleagues has also grown because it comes on the heels of several other scandals that raise big questions about how Wall Street operates. Already, probes are under way into Wall Street's shady initial public offering allocation practices, as well as its crucial role in setting up and selling the partnerships that led to Enron Corp.'s collapse. Worse, execs at many firms may have made a bundle investing in the partnerships, even as those same firms advised clients to hold Enron stock virtually until it went bankrupt. It all makes Wall Street seem rigged for the benefit of insiders as never before.

The damage goes way beyond the tat-

Cover Story HOW CORRUPT IS WALL STREET?

tered reputations of the firms and their beleaguered analysts. The entire economy depends on the financial system to raise and allocate capital. And that financial system, in turn, is built on the integrity of its information. Should investors lose confidence in that information, it could deepen and prolong the bear market, as wary investors hesitate to put money into stocks. And it could easily put a damper on the economy if companies are less willing—or less able—to raise capital on Wall Street. “One of the precious things we have is the integrity of the financial markets. If that changes it could have dramatic repercussions on the dollar, on domestic inflation, on the economy,” says Felix G. Rohatyn, former managing director of Lazard Frères & Co.

Wall Street has always struggled with conflicts of interest. Indeed, an investment bank is a business built on them. The same institution serves two masters: the companies for which it sells stock, issues bonds, or executes



“ We have failed to live up to the high standards that are our tradition, and I want to take this opportunity to apologize publicly to our clients, our shareholders, and our employees ”

David Komansky, CEO of Merrill Lynch

mergers; and the investors whom it advises. While companies want high prices for their newly issued stocks and low interest rates on their bonds, investors want low prices and high rates. In between, the bank gets fees from both and trades stocks and bonds on its own behalf as well, potentially putting its own interests at odds with those of all its customers.

But in recent years, those inherent conflicts have grown worse, as the sums to be made by overlooking them have grown enormous. That's because since the repeal of Depression-era banking laws, megabanks such as Citigroup and J.P. Morgan Chase are allowed to do everything from trading stocks to lending money and managing pension funds.

Chinese walls—jargon for the

strict separation of the different lines of business conducted under the same roof—were supposed to keep the bankers honest and free from corruption. But a series of scandals since the early 1980s has eaten away at those foundations. The final blow, however, was the tide of money that flooded over

Wall Street during great tech bubble. Between the last quarter of 1998 and the first quarter of 2000, the tech-heavy Nasdaq market index soared from 1,500 to more than 5,000. Many investors made out like bandits. So did the investment banks. During the same period, according to Thomson Financial/First Call, Wall Street earned \$10 billion in fees by raising nearly \$245 billion for 1,000 companies, many of them profitless tech firms that later blew up. The bubble burst in the spring of 2000, wiping out more than \$4 trillion in investor wealth. “The fact is that a bubble market allowed the creation of bubble companies, entities designed more with an eye on making money off investors rather than on them,” wrote famed investor Warren E. Buffett in his annual re-

to Berkshire Hathaway shareholders last year.

Staking their claim in the gold rush, Wall Street firms ramped up in the late '90s, hiring hordes of analysts, many of them inexperienced. New investment bankers were hired as vultures. A feeding frenzy set in as rivals fought to grab a big share of the market by bringing companies public. At the same time, a new cult of equities came to life, as individuals invested in stocks as never before. True, many investors ignored common sense. Still, as analysts applauded stocks, trumpeting their picks on CNBC and other media, investors bought. “Investors

A Heap of Trouble for Wall Street

Where the investigations are focused:

STATES New York Attorney General Eliot Spitzer is leading the charge, but California, New Jersey, and nine other states have joined in investigating analysts' conflicts of interest. New York could bring criminal charges.

CONGRESS Senator Paul Sarbanes (D-Md.), chairman of the Banking Committee, is expected to include tough conflict-of-interest rules in his reform bill. Congress may pursue more hearings on analysts' pay. The House has asked big Wall Street firms to provide documents on their role in setting up Enron partnerships.

nothing at face value which was understandable. There wasn't a lot of information, and it was of varying quality," says Michael E. Cincelli, co-chairman and chief investment officer at Bank of America Capital Management.

Only now are the ugly details of the conflicts at Wall Street being laid bare. In the wake of the e-mail scandal led up by Spitzer, analysts disparage stocks as "crap" and "junk" and they were pushing them at the time. The e-mails were so incendiary that they threaten to thrust Wall Street into the sort of public-relations nightmare that Philip Morris, Enron, Firestone, and Arthur Andersen have endured in recent years.

All the ingredients are present: publicity-hungry attorneys general, packed plaintiffs' lawyers, and sensational congressional hearings. "The one thing the industry wants is...the drip-drip-drip of new stories every week," says Howard Schiffman, a former SEC Enforcement Div. lawyer now practicing privately in Washington. More explosive documents may be the way. Both Spitzer and the SEC are seeking from more than a dozen papers and e-mail related to analysts' recommendations and their potential conflicts of interest. While nobody knows what evidence will emerge, the firms will have their own smoke guns. And analyst pay is likely to emerge as a hot-button issue (page 40). In any case, for instance, claims that he has seen contracts from investment banks promising analysts 3% to 7% of the investment banking revenues that they help to generate. It would be clear proof that analysts were being paid to help the firms'



what is good for this country, it will very definitely clean up its act **” Felix Rohatyn, former managing director of Lazard Frères**

banking clients, often at the expense of investors who expected objective advice.

The financial implications of this mess are enormous. Based on the evidence that has already emerged, Merrill is facing potential fraud claims by every retail investor who purchased any stock that Budget & Co. may have inincerely recommended. If analysts covering other industries at the firm harbored similar doubts about the companies they hawked, the number of claimants will expand exponentially. Should other financial firms have similarly embarrassing documents in their

files, Wall Street could easily be facing billions in potential liability. In a report released on Apr. 24, as the fiasco was unfolding, Prudential Financial analyst David Trone estimated the issue could cost Merrill alone \$2 billion.

Heads could roll, too. If prosecutors conclude that firms are guilty of systemic fraud—rather than harboring a small group of rogues—research directors and other high-ranking execs could be vulnerable. That's why the way analysts were paid is such an explosive issue. In egregious cases, criminal prosecutions are possible. Although regulators have never thrown an analyst in jail for fraudulently recommending a stock, experts say that could happen if public outrage flares high enough. Spitzer, whose tough New York securities statutes give him unusually broad power to file criminal suits, says he won't stop short of structural reform. "I'm continuing to negotiate [with Merrill]," he told *BusinessWeek* on May 1. "They've been fruitful discussion,

“ If Wall Street knows what is good for it and

but negotiations can break down over a range of things. At this moment, we have significant issues that have not been resolved.”

Over the long run, a risk bigger than legal penalties could be new restrictions that Spitzer or others place on the way investment banks do business. On May 8, the SEC is scheduled to approve new rules forcing analysts to limit and disclose contacts with investment banker colleagues. But there's a good reason to question whether these steps will be enough to satisfy the industry's critics—some of whom seek a separation between investment banking

On May 8, SEC Chairman Harvey L. Pitt is scheduled to approve new rules forcing analysts to disclose contacts with investment banker colleagues. He is also investigating several firms for pushing stocks they privately sold and for trading against their own recommendations. And on Apr. 30, the SEC stepped up its probe, asking 10 Wall Street firms for documents. The SEC is also ahead on its investigation into the allocation of IPO shares.



NASD With the SEC, the NASD hit Credit Suisse First Boston with \$100 million in penalties for unfairly distributing shares of IPOs. And the NASD has notified FleetBoston Financial's Robertson Stephens brokerage and J.P. Morgan Chase that it is looking into commissions charged to investors who got hot IPO stocks.

PLAINTIFFS' LAWYERS Several hundred or more arbitration claims are likely to follow in the wake of the Spitzer investigation. Class actions have also been filed on issues ranging from IPO allocation to analyst independence.

and analysis. At the moment, such radical change is a long shot. But if the Democrat-controlled Senate latches on to the analyst issue, it could trigger embarrassing hearings or proposals for more stringent rules. "Other shoes will drop," says one securities-industry lobbyist. "If [Salomon's Jack] Grubman or [Morgan Stanley's] Mary Meeker turns up [in similar evidence], the sky is the limit" for this issue. "It has big legs."

It was never much of a secret that analysts who work at investment banks often work against investors. Sell ratings now make up less than 2% of analysts' recommendations, up from around 1% during the bull market, according to First Call. Analysts are un-

der pressure from the companies they cover, as well as from big institutional clients who may own the stock, to give positive ratings. Michael Mayo, senior bank analyst at Prudential Financial, recently told the Senate Banking Committee that he had been exhorted to stay bullish throughout his career, from both his former employers and the companies he covers. Otherwise, he said, he doesn't get the same access that others do, which gives him a harder time making nuanced stock calls. "It's like playing basketball with one hand tied behind your back," says Mayo. Analysts also need to shine in surveys such as *Institutional Investor's* annual rankings, in which money managers vote for their favorite stockpick-

ers, so they spend too much time lobbying clients rather than crunch numbers. "Analysts get focused on selling what they think the client wants to hear to win the vote," says Henry Herrmann, chief investment officer at Waddell & Reed Inc., a money manager.

The biggest factor now contaminating the system is compensation. To an ever-increasing degree, analysts' pay is tied to how much investment banking business they bring in. According to a Merrill memo released by Spitzer, Blodgett detailed how he and his team had been involved in 52 investment bank transactions from December, 1999, to November, 2000, earning \$115 million for the firm. Shortly thereafter, B

HOW ANALYSTS' PAY PACKETS GOT SO FAT

It has been a frustrating 15 months for Daniel Peris, an analyst at Argus Research Corp. in New York. His efforts to cover AOL Time Warner Inc. have hit one brick wall after another. Unlike analysts at big-name investment banks, Peris was one of the few bearish voices on the stock for much of last year. He has been yelled at by AOL's investor-relations reps for spouting off in the press, he has been granted scant contact with senior management, and his calls seeking basic information are returned by low-level employees—often weeks later. "I'm sitting here in obscurity," he says. His consolation: Clients who followed his advice did better than those who followed more bullish calls.

What sets Peris apart from peers is that he works for an independent research firm that doesn't trade or do investment banking. And that means he has also missed out on the big bucks raked in by most other high-tech analysts. While AOL admits it gives priority to bigger firms, the company says it returns all analysts' calls, regardless of banking ties. Since the mid-'90s, those ties earned many Wall Street analysts fat paychecks by helping investment bankers win lucrative

business, such as underwriting or merger deals. "The analysts who brought in deals drove huge changes in research compensation," says Joan Zimmerman, partner at New York's Rhodes Associates, an executive search firm.

Salaries for Wall Street's researchers skyrocketed with the surging stock market. Fueled primarily by the tech

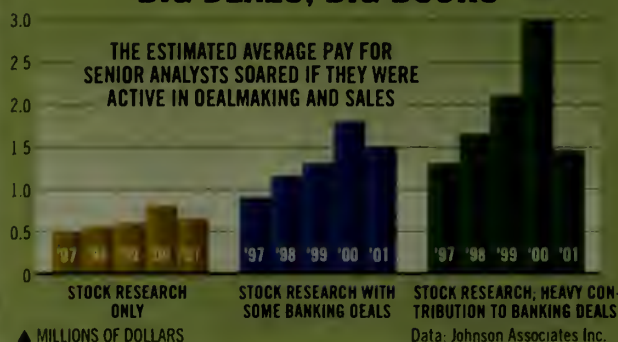
ment banking revenues, and [pay packages] started going up at a much faster pace as well," says C. David Bushley, a financial-services consultant at Buck Consultants Inc.

Senior analysts had no trouble pulling in a million in 2000, the blowout year. Those with a decade of experience trip that by contributing heavily to deal flow. A few hotshots at each firm earned anywhere from \$12 million to \$24 million. Even neophytes easily earned six-figure paychecks.

So how exactly are Wall Street analysts compensated? Increasingly by yearend bonuses. A fixed portion of income is related strictly to old-school research duties, but more that analysts are in fee-generating businesses, the higher the take-home pay. "The sales part of analysts' jobs became huge," says compensation consultant Alan Johnson of Johnson Associates.

Wall Street denies there's a direct link between pay and deals. "There isn't anything you can track in a statistical, quantifiable way," says Lehman Brothers spokesman William Ahearn. Goldman Sachs & Co. and Merrill Lynch also insist they have never paid analysts directly for generating investment banking business. "Their compensation is based on the overall profitability of the firm," says Merrill spokeswoman Susan McCabe. "They've never dealt and gotten a check."

BIG DEALS, BIG BUCKS



and initial-public-offering boom, equity analysts' pay jumped fourfold in a decade—and with it, all pretense that research was being written to benefit the investor. Because analysts' pay is tied so closely to the banking business, the Chinese Walls intended to keep them apart crumbled. "Technology drove a higher percentage of invest-

Rich Rewards "The analysts who brought in

pay package shot up from \$3 million to \$12 million. Charles L. Hill, First's director of research, says that when he was a retail analyst 20 years ago, if he helped investment bankers get a new client, he would get a small reward at year's end: "But it was the icing on the cake. Now, it is the cake." It would be an exaggeration to say analysts alone are to blame for Wall Street's woes. There's a much deeper problem involving everyone from credulous investors to deal-happy investment bankers and execs looking to open their wallets. "It's finally dawned on people that this incentive system we've given managers based on the value of stock options has encour-

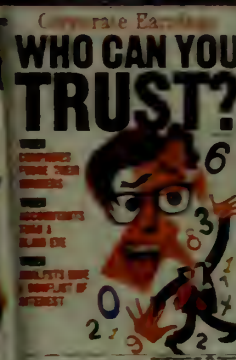
aged management to puff up their companies a lot," says Robert J. Shiller, an economics professor at Yale University and author of the 2000 best-seller *Irrational Exuberance*.

Even so, experts say a lot of the corruption oozing from Wall Street has to do with an erosion in investment banking ethics and practices. It goes clear back to 1975, when fixed trading commissions were ended. Until

APR. 3, 2000

BusinessWeek

OCT. 5, 1998



then, investment banks had been able to make big bucks off pricey trading commissions. Slashed commissions meant the firms were forced to derive more revenues from

investment banking business. "There's a real sense of sadness over what has happened in investment banking. It's not about what's right for a client, it's all about jamming a deal down a client's throat," says an ex-analyst who recently joined a hedge fund. Consider Enron, which has paid \$323

to investment banking during the year." Superstar Internet Analyst Henry Blodget replied, listing his team's involvement in generating about \$115 million in revenue from 52 deals, including an IPO pitch for Pets.com. Blodget's compensation jumped from \$3 million in 1999 to \$12 million in 2001. He resigned in December, citing a "lifestyle change."

Attorney Jacob J. Zaman-sky, who has already sued two investment banks on behalf of investors, says he has seen employment contracts for analysts that promised specific compensation related to the volume of investment banking deals they pulled in.

Specifically, he says, he saw confidential contracts that promised a \$2 million bonus to analysts if they brought in \$30 million in banking fees, and others that promised 3% to 7% of investment banking

revenue. Banks such as Credit Suisse First Boston, PaineWebber, before merging with UBS, and Donaldson, Lufkin & Jenrette have paid analysts up to 2% of the banking fees generated at the peak of the market. The idea was an incentive to produce sales and to lure talent from the competition.

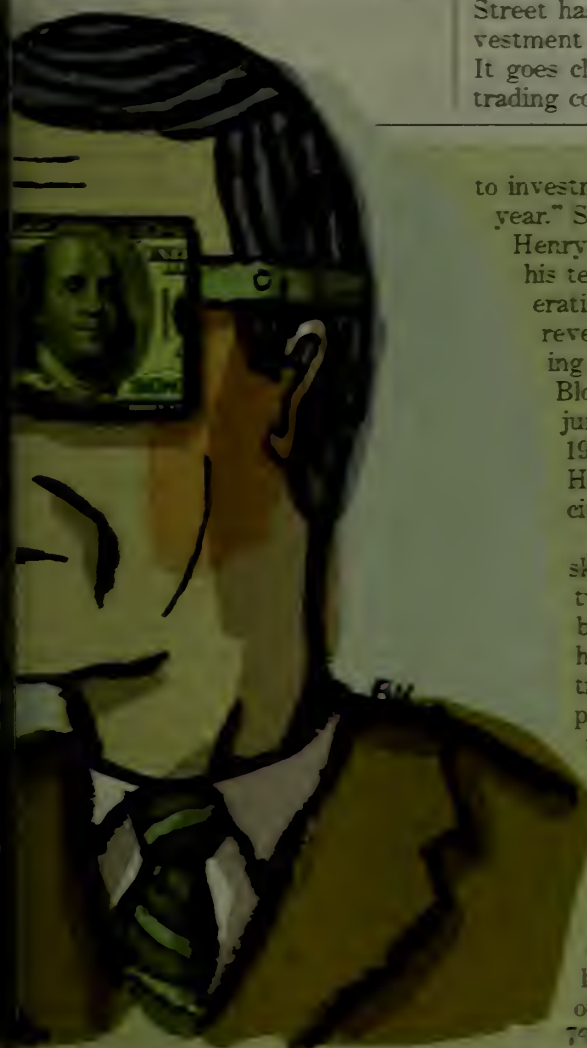
The banks insist that analysts' pay is based on complex formulas. Part hinges

on the accuracy of analysts' stock recommendations and earnings estimates, part depends on "votes" about their value from investors. Sometimes they'll earn a premium if the sector they cover is viewed as key to the firm, or if they cover the largest industries. Analysts are graded for how much access they have to top brass at companies, and for getting inside scoops.

It's very different from the old days when analysts' compensation was linked to the trading commissions their stock picks generated. That world changed for good when the fixed-commission system was swept away in 1975, forcing banks to find other ways of bankrolling expensive research staffs. Now, compensation experts are scratching their heads over how regulators could sever the ties between deals and analysts' pay. It's not as if the two sides of the bank would stop talking to each other, points out Michael I. Franzino, senior practice managing partner at headhunters Heidrick & Struggles: "Is the head of investment banking going to go over to equities research and say, 'We need a little help here'? Yes."

Franzino may be right. Research departments once generated enough money to pay for their own bonuses. They earned it from investors willing to pay for objective info. Now that the advice is "free," investors are getting exactly what they pay for.

By Mara Der Hovavarian, with Louis Lovelle and Tim Lowery in New York



is a bit more subtle than that. State Attorney General Eliot said that in the fall of 2000, the company asked its analysts to tally investment banking deals on which they had helped. In an Oct. 13 memo, Merrill's Equity Research Department, Deepak Raj, the company was surveying... contributions

huge changes in research compensation," says a high-level headhunter

Cover Story HOW CORRUPT IS WALL STREET?

million to Wall Street in underwriting fees since 1986, according to Thomson. Goldman, Sachs & Co. pocketed \$69 million of that, while Salomon made off with \$61 million, and Credit Suisse First Boston took \$64 million. Indeed, two of CSFB's investment bankers, after helping to design Enron's off-the-books partnerships, sat on one of the partnerships' boards. According to a complaint filed in Houston Federal Court on Apr. 8, investment bankers generated megaprofits from secretly investing in Enron's hidden partnerships. Meanwhile, many analysts continued recommending the stock to the bitter end: 11 out of 16 analysts who follow Enron had buys or strong buys less than a month before the company's bankruptcy filing.

Enron may be an extreme example. Still, in the past, tradition and ethics played a large role in keeping investment bankers loyal to their corporate clients. Indeed, Wall Street itself used to have much more of an interest in guarding its reputation. Says Jay Ritter, a finance professor at the University of Florida: "These days, bankers are far more focused on short-term profits than on their long-term reputations."

That's likely to get worse as investment banking business continues to dry up. The amount being raised in initial public offerings is way off its 2000 highs. Now there are far fewer mergers and follow-on offerings taking place. Because of this, it's unlikely that Wall Street, after all its hiring during the tech bubble, can sustain its profitability. Goldman Sachs estimates that five of the top investment banks on Wall

Street will have to get by on \$2 billion less than the \$16 billion in net revenues they racked up in 1999. If investment banks roll back to 1999 staffing levels, Putnam Lovell Securities estimates that banks will have to shrink their payrolls by 5%—

yond that, regulators may need to after the firms' top brass—the few who set the procedural as well as the moral tone. And the Street should take great pains to monitor itself in an effort to restore investors' confidence. "If Wall Street knows what is good

it and what is good for this country, it's very definitely clean up its act," says Rohatyn. Adds George H. Borah III, head of equities at New York's Weitz Peck & Greer: "This is an industry of trust. It's one of its key assets. If [Wall Street] loses it, it is going to have to invest in getting [that trust] back and putting in the controls to rebuild it. Without that trust, there's nothing."

Merrill Lynch apparently knows this. At its annual shareholder meeting on Apr. 10, Chairman and CEO David H. Komansky took an unprecedented stand on the analyst debacle, saying: "We have failed to live up to the high standards that are our tradition and I want to take the opportunity to publicly apologize to our clients, our shareholders, and our employees." On apologies may follow as firms desperately try to assuage potentially litigious investors and unyielding regulators. But for

Investigations into Wall Street's conflicts of interest have so far focused on analysts. Among brokerage bosses, only Merrill Lynch Chairman and CEO David H. Komansky has shouldered blame and apologized. Others, however, may soon have some explaining to do:

Where Does the Buck Stop?

SANFORD WEILL

Chairman and CEO of Citigroup



His bank has issued \$17 billion in telecom IPOs since 1997, thanks in part to Jack Grubman. The rainmaker analyst pushed now-bankrupt firms such as Teligent and Global Crossing, which Citigroup's Salomon Smith Barney took public. Now, Spitzer's office is eyeing Grubman. Weill said in the bank's last conference call that investor confidence is important.

JOHN MACK

CEO of Credit Suisse First Boston



When he took over in July, the bank was already under investigation for unfairly allocating IPOs. Mack finished reining in the empire of star tech banker Frank Quattrone and later settled with regulators for \$100 million. He said on Apr. 22 that Wall Street research departments needed to be restructured.

PHILIP PURCELL

Chairman and CEO of Morgan Stanley



The bank earned \$264 million underwriting tech companies during the boom, one of the biggest takes on Wall Street. In August, a federal judge dismissed eight investors' claims against Morgan Stanley and its star Internet analyst Mary Meeker for misleading them over Amazon.com and eBay stock. But it may not get the same result with Spitzer.

putting over 13,000 out of work.

But no matter how much Wall Street shrinks, its credibility must grow again. Firms have already taken some steps, such as eliminating direct reporting by analysts to investment bankers. But the Street and the SEC still must hammer out a solid, enforceable code of conduct. And if strong reforms in how analysts are compensated aren't pursued, focusing on increased disclosure will do little to end the abuses. Be-

Street, just saying sorry at this stage may prove to be too little, too late.

By Marcia Vickers and Mike Fromer with Emily Thornton, David Healy and Heather Timmons in New York and Mike McNamee in Washington

BusinessWeek online

Full interviews with Eliot Spitzer and Felix Rohatyn can be found at www.businessweek.com

Behind the Scandal "These days, bankers are far more focused on short-term profits than their long-term reputation," says one finance professor

COMMENTARY

By Gary Weiss

A SORRY LEGACY THE STREET CAN'T SHAKE

It made headlines around the country. The New York State Attorney General took action against an entrenched practice on Wall Street—illegal conduct involving the stocks of the leading companies of the day. Wall Street seethed with resentment at what appeared to be politically motivated grandstanding.

The above event was taken right from the headlines—of Jan. 5, 1978.

The attorney general was Louis J. Lefkowitz, not Eliot Spitzer, and his target was the American Stock Exchange, not analysts.

It's scandal time on Wall Street. Again. If brokerage industry scandals seem to happen over and over again—the names of the players changed, but the playbook intact—there's a good reason. They do. And that's important to keep in mind as the daily headlines unfold over Wall Street's latest moral crisis. Recurrent scandals are a part of the fabric of the Street, a product of halfhearted regulation and deeply ingrained industry practices that often go unchecked for years.

Historians say a distinct pattern has evolved since the 1930s: scandal, usually a byproduct of a bull market, followed by a sometimes overzealous crackdown, followed by a return to business as usual under the eyes of lax regulators. "What you have here is an institutionalized structure feeding on itself—slippage between the rules as written and the rules in practice," says Dale A. Oesterle, a University of Colorado law professor and critic of Wall Street's regulatory structure. In this view, the securities industry's system of self-regulation feeds the scandal-crackdown cycle.

It's surely no secret that there are no new Wall Street scams—just dusted off old ones. That is evident by perusing Wall Street tell-all books that have long since turned yellow with age. One of them that could have been written yesterday—but was published in 1932—was *High and Low Financiers*, an exposé of some notorious swindlers and their

abuses of our modern stock-selling system." The book recounts one instance in which the long-defunct brokerage Hadley & Co. took a huge position in the shares of an aircraft company and then issued the 1929 version of a strong buy—with 1990s-style price targets. Alas, "the actual condition of the company while these glowing descriptions were being broadcast was rather sad," said the



authors. Sound familiar?

In reaction to such abuses, lawmakers passed the Securities Act of 1933 and the Securities Exchange Act of 1934. The 1934 act, which created the self-regulation system in effect to this day, was a compromise between New Deal reformers and the Street. The newly created Securities & Exchange Commission was in overall charge, but most regulation and rulemaking was left in the hands of the exchanges.

The system has worked well—when the Street wants it to work well. But all too often, "abuses of our modern stock-selling system" go undetected and unpunished until it is too late. Critics say industry regulators are far too reactive and don't effectively prevent scandal. "The regulators have been slow to anger. They don't jump up and take action until there's a reason to notice," said John Herzog, a veteran Wall Street exec and chairman of New York's Museum of American Financial History.

Wall Streeters have a way of shrugging off the best their regulators have to offer. A good example can be found in the controversy that arose in the '90s concerning price-fixing on the Nasdaq Stock Market. After years of complaints that market-makers colluded to fix prices, the Justice Dept. brought suit. One result was a set of new order-handling rules designed to get customers fairer prices. But an SEC study in 2000 found what then-Chairman Arthur Levitt called an "alarming failure" to abide by those rules.

Other examples abound of Wall Street thumbing its nose at regulators. Penny stock scandals of the 1980s resulted in an uproar—and passage of sales practice rules governing shares trading at less than \$5. But the rules were evaded or ignored, and the microcap scandals of the 1990s were the result. In the end, federal prosecutors—not the regulators—proved the undoing of the microcap crooks.

Law enforcement also brought down the other scoundrels of the 1980s. The insider trading scandals, and the prosecution of Mike Milken,

Cycle of Scandal The pattern: A

disgrace, a crackdown, then little real change

NEW YORK AG LOUIS LEFKOWITZ IN A 1971 PROBE

generated daily headlines and destroyed Drexel Burnham Lambert. But insider trading continues to dog the markets. Likewise, the Lefkowitz assault on Amex traders was quickly forgotten, and new scandals beset the Amex and NYSE in the late 1990s.

A cycle of scandals doesn't have to be a permanent feature of the Wall Street landscape. Not if the SEC more actively enforces securities laws and relies less on the self-regulatory organizations, often justly criticized as too sympathetic to the Street. And if the SEC won't step in—well, there's always the state regulators. Spitzer is following a tradition that may result in feelings of déjà vu—but that doesn't make it any less necessary.

Senior Writer Weiss has written extensively about Wall Street scandals.

RAINMAKER IN A FIRESTORM

TELECOM Jack Grubman made millions as a player in the industry he covered. Now, that could spell his downfall

In the second half of the 1990s, Salomon Smith Barney analyst Jack Benjamin Grubman may have been the most influential person in the telecom industry. The onetime boxer from a blue-collar neighborhood in Philadelphia had risen to become the sector's power broker, helping startups raise millions, persuading investors to bid up stock prices and even counseling CEOs on strategy and acquisitions. Between 1998 and 2000, Grubman helped Salomon raise \$53 billion for telecom players, more than any other firm on Wall Street, according to Thomson Financial.

That's ancient history now. Today the question is whether Grubman can hold on to his job and avoid serious legal trouble. Investors are furious that the stocks he promoted have collapsed. New York Attorney General Eliot Spitzer is investigating whether Grubman's stock recommendations were compromised by banking fees Salomon received from telecom players. And on Apr. 30, his highest-profile client, Bernard J. Ebbers, stepped down as chief executive of embattled WorldCom Inc. "Will Salomon keep him around?" asks one money manager. "I can't imagine it."

Salomon is standing behind its fallen star. "Jack has and will continue to play a key role within our research division," says Kevin McCaffrey, Salomon's director of U.S. equity research. And he has some support among executives and money managers with whom he forged close ties during the early days of the telecom boom. When Jeffrey Heil, director of equity investments at the Regents of the University of California, began following telecom in 1994, Grubman spent five hours giving him what Heil calls "Telecom 101." Says Royce J. Holland, chief executive of upstart Allegiance Telecom Inc.: "Jack is just as smart today as he was two or three years ago."

Still, the heat is intensifying. While many Wall Street analysts missed the downturn, Grubman was in a category all his own. At least 10 telecom players he recommended have filed for bankruptcy, including Global Crossing Ltd. WorldCom, which he rated a buy until Apr. 22, has seen its stock drop 95%, to \$2.50. Says one money manager:

"I don't think anybody's been listening to him for the past six months."

More than others, Grubman was a player in the industry he covered. He counseled SBC Communications Inc. in its Ameritech acquisition in 1998. He helped Ebbers launch a hostile bid for MCI Communications in 1997. And Grubman recruited Joseph P. Nacchio, the top AT&T exec, to become chief executive of Qwest Communications International Inc. in 1996.

Grubman was up front about his role. "What used to be a conflict is now synergy," he explained in a *Business Week* profile two years ago. "Some people like me who are banking-intensive would have been looked at disdainfully by the market 15 years ago. Now they know I'm in the flow of what's going on. That's for sure: Grubman was paid about \$20 million annually, compared with \$1 million to \$2 million for the typical Wall Street analyst."

But now, investors are questioning whether Grubman's stock picks were compromised by his deep involvement with the companies he covered. He already has been hit with one arbitration claim filed with the New York Stock Exchange on behalf of a Global Crossing investor. And more trouble may lie ahead. In April, Spitzer subpoenaed Salomon Smith Barney, requesting documents related to Grubman's research and the fees he received from his investment banking activities. But unlike the alleged conflict of interest found in the Merrill Lynch case, Grubman argues that he truly believed in the stocks he recommended, even if he was wrong.

Despite Grubman's troubles, Salomon has a strong motivation to keep him on staff. The firm doesn't want to create an enemy who could help in any investigation into the firm. Grubman is ousted, he could have more incentive to point the finger at Salomon, detailing, for example, alleged pressure on analysts for sales or investment banking. But even if he keeps his job, Grubman's days as the industry's power broker may well be over.

By Peter Elstrom
New York

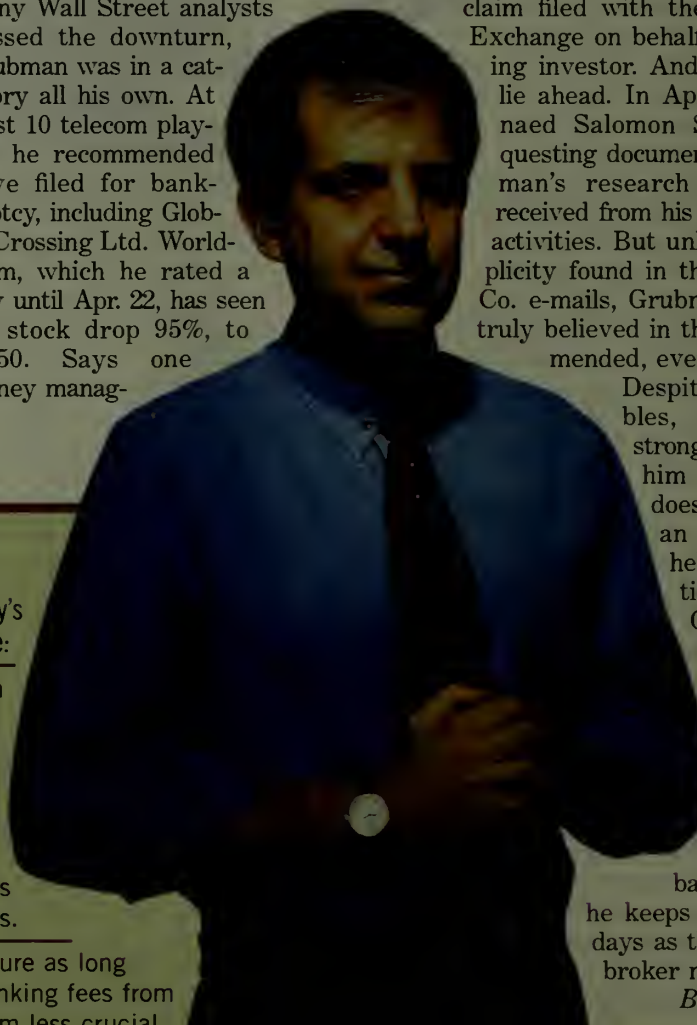
On the Spot

Once the king of telecom, Salomon Smith Barney's Jack Grubman has come under intense pressure:

POOR PICKS Grubman championed telecom upstarts in the late 1990s. But his picks have plummeted, with Global Crossing, Teligent, and others in bankruptcy.

REGULATORY HEAT In April, New York Attorney General Eliot Spitzer began looking into whether Grubman's telecom research was compromised by investment banking business.

WORLDCom's WOES Grubman seemed secure as long as he could help Salomon get investment banking fees from WorldCom. But WorldCom's troubles make him less crucial.



THERE'S NOTHING LIKE THE RUSH OF THE REAL-TIME ENTERPRISE.



PeopleSoft. For business in real-time.

The only suite of enterprise application software with Pure Internet Architecture.™

Connect people to business processes—instantly. No intermediaries. Dramatically lower costs. Unparalleled performance. This is the world of the real-time enterprise. This is what PeopleSoft can do for your business right now.

Learn more by visiting us at www.peoplesoft.com/real-time or call 1-888-773-8277.

Customer Relationship
Management

Supply Chain
Management

Financial Management

Human Capital
Management

Application
Infrastructure

PeopleSoft®

YOU MIGHT GET SOME OF IT BACK

STRATEGIES If you think a broker's tainted advice cost you, here's what you can do

Is your claim for real?

So you bought InfoSpace Inc. shares based on what Merrill's Internet analyst, Henry Blodget, said on CNBC. Too bad. "Unless you were a Merrill client, you don't have a claim," says David E. Robbins, a New York attorney who has written books on securities arbitration. "A brokerage firm is only liable to its customers."

What's a strong case?

That depends on whether you can prove you relied on analysts' tainted advice. "If a Merrill client can show that he or she bought a stock based solely on the firm's research reports, then that customer has a good chance of prevailing," Robbins says. However, if you're a client of Salomon

For most people, that may be the fastest and surest way to get some recover

Should you pursue arbitration?

If you have a loss of \$75,000 or more, you can file an arbitration claim as quickly as possible. You're likely to get the biggest award by going to arbitration. Investors win something in about 55% to 60% of arbitration cases.

Don't go into arbitration alone because you'll be up against the firm's lawyers. But top arbitration lawyers usually don't accept cases unless damages are \$75,000 or more, since they take 30% to 40% of the award as their fee. Why file quickly? Because the National Association of Securities Dealers and the New York Stock Exchange, which handle most securities arbitrations, could be swamped by an influx of new cases.

If your losses are under \$75,000 and you want arbitration, you may find an attorney to work on an hourly basis. Expect to pay \$200 to \$350 an hour.

What about a class action?

Suppose you get a letter informing you that a class action has been filed on behalf of Merrill investors, includ

Where to Go for Arbitration Help

WEB SITE (WWW.)	DESCRIPTION
NASDADR.COM	Informative site of NASD Dispute Resolution, the largest arbitration forum. Lists rules and filing costs and explains mediation, which is another option.
NYSE.COM/ARBITRATION	Provides information on filing an arbitration claim at the New York Stock Exchange.
PIABA.ORG	Lists local attorneys who specialize in representing investors in arbitration disputes. Many will give a 15-minute initial consultation for free.

Want to make your brokerage firm pay for giving you bum advice? Well, get in line. Investors' attorneys say that in the past two weeks, they have fielded hundreds of calls from brokerage clients angered by the recent revelations of the government's widening investigation into stock analysts' practices at Merrill, Lynch & Co. and other big brokerages. "Our phones are ringing off the hook," says Steven B. Caruso, a New York investors' attorney who represents several Merrill Lynch clients.

But just because you lost money in the stock market doesn't mean you qualify for a payout. Before you leap, take a moment to figure out whether your beef with your broker is legitimate. If so, the next step is determining which type of legal recourse is likely to be most effective. Your strategy will depend on how much money you lost and whether Merrill Lynch and other brokerage firms create restitution funds as part of a settlement agreement with the government, as is widely expected. Here are some guidelines for investors:

Smith Barney or another firm in the same situation, your case will be tougher to prove because only damning e-mails from Merrill have become public so far. That could change as the probes continue, though.

What are your legal options?

You may not realize it, but when you opened your brokerage account, you agreed to take disputes to arbitration. Usually, the only way around arbitration is to be part of a class action. Investors' attorneys expect to see a flood of such lawsuits in coming months. Legal experts think Merrill, and other firms if needed, will set up special funds to make restitution to aggrieved investors.

you, who bought a particular stock during a particular time period. This is a bonanza. The amount investors usually recover in such suits is small—just pennies on the dollar.

Believe it or not, your best bet may be to remove yourself from the suit by the procedure that should be outlined in the notification letter. Removal will let you seek arbitration. And though no restitution funds have yet been created, it's likely that you won't be able to go that route if you are also in the class action.

Getting satisfaction may wind up being a long and frustrating process. But doing your homework will increase your odds of victory.

By Susan Scherreik in New York



Meet Chen. Globe-trotting Dealmaker.

Virtual Team Virtuoso.

**And the impetus behind the
interactive multimedia movement.**

They're everywhere. Clicking PDAs to access vital information. Dialing cell phones to download e-mail. Logging on to laptops to communicate anywhere on the planet. It's the Chens of the world who are turning business on the move into business as usual. And it's Nortel Networks™ that develops the technology to meet the challenges of mobility and helps businesses generate revenue. For instance, integrated multimedia technology from Nortel Networks enables companies such as Chen's to communicate via video calls, voice mail, e-mail, and faxes over any device and any network. Whether Chen is in the office or on the road, he's always in touch. So, he doesn't have to find information to stay productive and competitive – it finds him. And with Nortel Networks Optical Ethernet-based network hosting solutions, service providers can manage the delivery of these services so Chen can focus on his core business. Just one more way Nortel Networks is making the Internet what you need it to be.

nortelnetworks.com/multimedia

Nortel Networks, the Nortel Networks logo and the Globemark are trademarks of Nortel Networks.
©2002 Nortel Networks. All rights reserved.

EXECUTIVE SUITE

THE LEADING LIGHTS LEAVING SUN

A mass departure of talent spooks investors

When Merrill Lynch & Co. analyst Steve Milunovich introduced Sun Microsystems Inc. President and Chief Operating Officer Edward J. Zander at an industry confab on Mar. 29, it wasn't with the normal niceties. "We're really glad to have Ed Zander here with us tonight," Milunovich joked, "because everyone else at Sun has retired in the last week."

And now, so has Zander. On May 1, Zander, a strong No. 2 to Sun CEO Scott G. McNealy, announced he will bow out as of July 1. The 55-year-old joins three members of what had been one of high tech's most stable management teams, who all announced recently that they will retire on July 1: Executive Vice-President John Shoemaker, 59, who runs the server business; Chief Financial Officer Mike Lehman, 51, a 15-year veteran; and computer services chief Larry Hambly, 55, one of Sun's first employees. What's more, chief counsel Michael Morris has given up that title to run Sun's lawsuit against Microsoft Corp., and Stephen DeWitt, who ran Sun's low-end server-appliance efforts, recently left.

Add it all up, and a fifth of Sun's top 20 execs are heading out the door—right at the end of one of Sun's toughest years. This exodus has clearly alarmed investors. The shares dropped 15% after Zander's announcement, to \$6.90—and that's down from \$63 in August, 2000. "It begs the question: Are all these people leaving because the road ahead is going to be particularly tough, and it's



just not worth it?" asks Sanford C. Bernstein & Co. analyst Toni Sacconaghi Jr.

Certainly, the road won't be easy. A top beneficiary of the Internet bubble, Sun was a big victim of the burst. Sales are expected to plummet 32%, to \$12.4 billion, for this fiscal year, estimates Goldman, Sachs & Co. And it has lost money for the past three quarters. When business spending turns around, Sun can't afford to miss a beat. It lost huge share in its core UNIX server market when Web and telecom customers imploded, and analysts say it must fight to regain those customers against IBM with its mainframes and PC rivals such as Dell Computer Corp. Plus, Sun must earn its stripes in the emerging world of Web-services software.

Still, Sun execs insist that the outlook has nothing to do with their leaving. Zander, Shoemaker, Hambly, and Lehman all say they intended to leave a year or more ago but stayed on to manage Sun through the downfall. That has

McNEALY

The CEO will take back more hands-on responsibilities

also given them time to plan replacements. Since McNealy joined General Electric board in 1999, he has tried to follow the Jack Welch model of making succession planning a priority. And Sun does have named execs in place to fill the posts. New Chief Financial Officer Steve McGowan, who shadowed Lehman for months, had been finance officer of Sun's server business.

But if this mass retirement was planned, it was a well-kept secret. "If they had been public about what they intended to do, then it might have been easier to understand," says S. Bozman, research director at International Data Corp.

McNealy says a strong quarter ended Mar. 30—Sun regained a share in the Unix market, gross margins rose five percentage points to 42%—means the company is ready for a changing of the guard. The loss of Zander will be easy to overcome, however. Known for his marketing, operations, and customer-scholarship skills, analysts credit him with delivering earnings and growth

while McNealy attended to strategy. "You may have succession plans, that doesn't mean it doesn't hurt," Lehman Brothers analyst Dan N. "It's another reason not to buy Sun."

The exodus leaves more day-to-day management to McNealy, a role he relinquished in 1998. He'll take back president's title he bequeathed to Zander that year and has no plans to hire a new COO. McNealy's goal is to integrate all the businesses. To that end, Zander consolidated software and marketing before announcing his retirement. He first discussed leaving with McNealy a year ago, "all the boxes on my checkbook have been filled in, and this is as good a time as any," says Zander. Wall Street seems to have a longer checklist.

By Peter Burrows, with Jim Keller, in San Mateo, Calif.

Riding Into the Sunset

Sun's close-knit management team is retiring

ED ZANDER, 55 President and COO

CEO Scott McNealy's right-hand man, he provided operations and marketing knowhow



MIKE LEHMAN, 51 CFO

The 15-year Sun Microsystems veteran has been grooming replacement Steve McGowan for the past six months

JOHN SHOEMAKER, 59 Computer Systems Head

The former Xerox exec oversaw huge growth in the \$15 billion hardware business, which brings in more than 90% of Sun sales

LARRY HAMBLY, 55 EVP of services

Among Sun's first employees, Hambly runs its \$3.5 billion services business, which is becoming an increasingly strategic part of the company

SAVING WORLDCom: AN IMPOSSIBLE DREAM?

New CEO Sidgmore, like Ebbers, dismisses talk of bankruptcy

How many times can you sell the same company? WorldCom Inc. Vice-Chairman John W. Sidgmore told at staff meetings not long ago that he had sold his former Internet backbone company UUNET Technologies Inc. twice—first to MFS Communications and then to WorldCom when it bought MFS. Why not sell UUNET again, this time to help raise cash to pare WorldCom's crushing \$30 billion in debt? "Heck, I'd be happy to make a third fortune," joked Sidgmore, according to former staffers who attended the meetings. It's no longer a joke. Sidgmore may have little choice but to sell UUNET now that he has been named president and chief executive of Clinton (Miss.)-based WorldCom. Founder Bernie Ebbers, who resigned on Apr. 30 as the company's stock fell below \$3 a share—down nearly 80% since Janu-

ary—and its bonds traded at less than \$1 on the dollar. With earnings plummeting and debt payments soaring to \$1 billion a year, the telecom giant has driven everyone from investors to customers to believe that it could eventually file for bankruptcy. "That prospect is brightening the daylights out of WorldCom's business customers," says Lisa Price, a consultant with the Information Group. Can Sidgmore get WorldCom out of the deep hole dug by

Stebbers? With his cocky, charismatic sense of humor, the 51-year-old Sidgmore is widely expected to win back the allegiance of spooked investors and customers. Since moving to WorldCom with the MFS acquisition in 1996, he has earned the respect of investment bankers and the companies that use WorldCom's long-distance, data, and Internet services. In his first 24 hours as CEO, he called on WorldCom's top 10 customers. "He's a good pitcher and knows how to spin a long narrative that in-

vestors can believe in," says a former WorldCom executive.

But schmoozing Wall Street won't fix WorldCom's fundamental problem: The company's \$30 billion in debt is more than it can shoulder, given the sharp slowdown in its core businesses. Sales are expected to plunge by \$1 billion this year, growth in data services has decelerated to 3% from 27% in the past two years, and the telecom market shows no sign of recovery.

Most industry observers believe Sidgmore ultimately will have no choice but to declare bankruptcy. Sidgmore insists that's not true: WorldCom has \$1.4 billion in cash and an untapped \$8 billion bank credit, and only \$60 million in debt due this year. "We don't have a liquidity crisis," he says, "just the perception of a liquidity crisis."



A WORLD OF TROUBLE

The resignation of CEO Bernie Ebbers (left) leaves new WorldCom CEO John Sidgmore with a sinking business and \$30 billion of debt. His options are few:

► Fold the consumer long-distance business, represent-

ed by a separate tracking company, back into WorldCom

► Sell off some international assets, along with wholesale long-distance and wireless resale businesses

► File for bankruptcy and then sell the company



But the big worry for outsiders is the \$4.5 billion in maturing principal debt due in the next three years. Although the company says it will continue to generate \$1 billion a year in free cash flow in the next three years—more than enough to cover interest payments—some analysts worry that the liquidity would dry up if the company's business continued to deteriorate. "Sidgmore will either have to sell the company—and nobody wants to buy right now—or restructure the balance sheet" through a bankruptcy, says Richard Klugman, a telecom analyst at Jeffries & Co.

Sidgmore dismisses talk of bankruptcy as nonsense, just as Ebbers did. But unlike Ebbers, Sidgmore knows he has to sell off pieces of WorldCom to raise cash, and has launched a 30-day assessment of assets. "Ebbers' philosophy was to never sell anything," says Sidgmore. "My philosophy is that you need to continually evaluate your assets and sell those that aren't working out."

Industry insiders say Sidgmore's options are clear. The ever-declining consumer long-distance business, represented by a separate MCI tracking stock, should be folded back into WorldCom. That would eliminate a \$71 million payout each quarter in dividends. Capital spending could be halved to \$2 billion, considered the minimum to maintain the networks.

Sidgmore could also sell off low-margin businesses, such as a wireless-resale unit that generated just \$310 million in first-quarter revenues and had no growth. Analysts would also like to see Sidgmore sell the long-distance consumer and wholesale businesses and parts of its international network.

Such pruning would leave WorldCom with its core business—providing companies with long-distance service, Internet access, and data services. Those businesses bring in about \$20 billion to \$25 billion a year in revenues, and profit margins of 10% to 13%. That could make an attractive takeover target; Sidgmore may still get the chance to sell his company a third time.

*By Charles Had-
dad in Atlanta*

COMMENTARY

By William C. Symonds

TYCO'S CEO: TIME TO WALK THE PLANK

KOZLOWSKI SHOWS
NO SIGN OF LETTING GO

For most of his time at the helm of Tyco International, CEO Dennis Kozlowski seemed to be an investor's dream come true. Over the past decade, Kozlowski appeared to transform an obscure industrial conglomerate into a powerhouse that by last December enjoyed a higher market capitalization than Ford Motor, General Motors, and Daimler-Chrysler combined. And that success had plenty of rewards for Kozlowski, a passionate sailor. Since 2000, Tyco has sponsored a high-tech yacht to compete in the around-the-globe Volvo Ocean Race.

Now, however, Captain Kozlowski appears to have lost his bearings. As questions swirl around the company's accounting practices and the prices it paid to do deals, Kozlowski has spent the past four months wildly zigzagging in an effort to quiet the controversy and shore up Tyco's sliding stock, which is off 66% since Jan. 1. All told, some \$80 billion in market value has been washed away. With his credibility gone and no clear direction in sight, it's time for Kozlowski to give up the helm.

The problem for Kozlowski and Tyco is that two successive 180-degree turns on strategy have left investors convinced that the company is rudderless. In January, he announced he would abandon the company's long-standing strategy of growth

through acquisition, vowing to break up the company into four pieces. Then, on Apr. 25, after struggling for weeks to find buyers for its units, Kozlowski tacked again. Now he says he'll hold the company together after all, with the exception of a planned initial public offering for commercial-finance giant CIT Group Inc. "There have been too many reversals," says investor David Dremman, chairman of Dremman Value Management, which owns several million shares.

Moreover, Kozlowski will never be able to clear up the questions over aggressive accounting practices that have made Tyco such a lightning rod for critics. The fears that the company has used accounting sleight-of-hand to pump earnings have been accentuated by its recent failure to produce audited financial statements for its plastics division, which Kozlowski just took off the block. Without audited numbers, no buyer was willing to seal a deal. Now the skepticism is so great that only an outsider may be able to convince investors that Tyco's books are clean.

Nor is Kozlowski the guy to lead Tyco through a period of rebuilding. The acquisition-driven machine he created needs to be junked in favor of a "growth model that is internally driven," says Bear, Stearns & Co. analyst John G. Inch. Kozlowski has shown little record in doing that.

Yet rebuilding is what will be needed. Tyco's biggest challenge is sorting out the aftermath of its disastrous acquisition of CIT. That deal was a miscalculation that Tyco Chief Financial Officer Mark Swartz concedes will force Tyco to take a write-off of \$4.6 billion, even in the unlikely event it manages to get the full \$6.5 billion it expects from an IPO.

The upshot is that Tyco, with over \$10 billion in debt coming due in the next 18 months, is now perched "on a high wire that is 1,000 feet off the ground," says analyst Nicholas P. Heymann of Prudential Securities. Even critics of Tyco's accounting, however, say a successful sale of CIT, along with its \$4 billion in cash on hand, would buy Tyco enough time to make its upcoming debt payments. That's all the more reason to bring in someone new who would have investor backing to revive a smaller, more sustainable company.

All of which means that if ever there were a situation for a CEO to step down, this is it. "Tyco desperately needs a new CEO," argues Jeffrey A. Sonnenfeld, associate dean of the Yale School of Management. Adds a large institutional investor: "Bringing in an outsider with a strong reputation for integrity would be a home run." Unfortunately, Kozlowski isn't likely to feel pressure from his board. Tyco's directors are an assemblage of Kozlowski associates and insiders, led by ex-CEO John Fort.

A year ago, Kozlowski was hoping to be another Warren E. Buffett or Jack Welch.

Today, he would do better to emulate Bernie Ebbers, late of WorldCom Inc. Otherwise, he may take the ship down with him.

Boston bureau chief Symonds has covered the rise and fall of Tyco.



**\$80 BILLION IN MARKET
VALUE HAS BEEN LOST**



Dillard's department stores found a real bargain.
Xerox assessed and streamlined their company-wide work
processes and printing needs, saving them \$1.6 million.

There's a new way to look at it.

Learn more: www.xerox.com/learn For a sales rep: 1-800-ASK-XEROX ext. LEARN

XEROX CORPORATION All rights reserved XEROX® The Document Company® and There's a new way to look at it are trademarks of XEROX CORPORATION
is a registered trademark of Dillard's Inc

THE DOCUMENT COMPANY

XEROX.

COMMENTARY

By Howard Gleckman

DEFICITS AS FAR AS THE EYE CAN SEE

In the Nineties, Washington reaped the benefits of the economic boom. Tax revenues flooded federal coffers, deficits disappeared. But new estimates of this year's anemic tax take suggest those days may not return anytime soon. Revenues could fall \$30 billion to \$70 billion below forecasts, which could push the 2002 deficit to \$100 billion.

What happened? Capital gains shrank as stocks and mutual funds plunged. Bonuses vanished, options went underwater, profits disappeared. And although many pols insist, with the economy growing 5.8% in the first quarter, that deficits are merely a temporary, cyclical problem, don't bet on it. America may be in for another long run of red ink.

Although revenues will snap back, it would take a return to 20% annual stock market growth and 4%-plus increases in gross domestic product to put collections back on a late '90s track. Can that be done? Possibly, but it is hard to see. And the budget already assumes annual growth of 3.2% through 2008.

Even if revenues rebound, the budget must absorb extra spending for everything from the war on terrorism to Medicare. Toss in new tax cuts, and the outlook is unnerving: President Bush may be looking at deficits for the rest of his first term and well into a second term, assuming he's still in office. So Bush faces a painful choice: roll back spending and tax cuts or accept persistent deficits. "The trajectory is simply not sustainable," says Brookings Institution economist Peter R. Orszag.

Such deficits don't necessarily mean economic Armageddon. At less than 1% of GDP, a \$100 billion deficit is unlikely to cause the debilitating rate hikes predicted by former Treasury Secretary Robert E. Rubin. But a budget shortfall could cripple the Bush agenda. It makes it tougher to fix Social Security, and it could

scramble his plans for more tax cuts. Similarly, Democratic hopes for a big Medicare drug benefit may fade.

The return of deficits could discipline spendthrift and tax-cut-happy pols. But the political culture is leaning toward ever-more-

expensive ways to buy votes. One recent example: a costly new farm bill. The tax shortfall "should be a yellow light," says Robert Bixby, executive director of the Concord Coalition, a Washington antideficit group. "Unfortunately, some people look at a yellow light and speed up."

To see how we got into this mess, it helps to look at the numbers. In March, the Congressional Budget Office predicted deficits of \$46 billion in 2002, \$40 billion in '03, and a surplus of \$26 billion in '04—the last year of Bush's current term. The CBO saw surpluses rising to \$223 billion from '05 through '08. The surplus from '02 through '08, when a second Bush term would end: \$592 billion.

That won't happen. Assume a \$50 billion revenue shortfall this year. Now, add some spending. For the military, Bush wants \$300 billion more than the CBO projected through 2007. And his request includes only \$10 billion for the war on terrorism. A realistic estimate for defense hikes through 2008: \$450 billion—without a war with Iraq.

The Brookings Institution figures that homeland security will cost Washington up to \$10 billion a year, on top of the \$38 billion Bush wants for 2003. That farm bill will cost \$73 billion. And Medicare costs are rising far faster than the White House projected. Finally, there are tax cuts. Energy subsidies could cost \$25 billion. Keeping 30 million Americans from getting hit by the Alternative Minimum Tax will cost an additional \$100 billion by 2008. Add it all up, and that \$592 billion cumulative surplus becomes at least a \$200 billion deficit.

For now, deficit politics has been shoved to the background. With an eye to midterm elections, politicians are busily spending and cutting taxes. But unless a roaring economy comes to the rescue, the country may find itself again confronting deficits for the foreseeable future.

Gleckman covers fiscal policy from Washington.



WHY BUSH MAY BE AWASH IN RED INK

Revenues Capital-gains tax revenues will likely stay flat for years to come

Tax cuts Keeping 30 million taxpayers out of the alternative minimum tax will cost \$100 billion over six years

Medicare Pressures to increase hospital and doctor reimbursements, demands for a seniors' drug benefit, and health-care inflation will add hundreds of billions in outlays

Defense Bush wants \$300 billion more to improve the military. He will need billions more to fight the war on terrorism

Pork A new farm bill will boost federal subsidies by \$73 billion over 10 years, and President Bush has agreed to \$4.4 billion in extra highway money for 2003

Photo: Jeff L.



**It's not an underground nightclub in Prague.
It's a hotel.**

Eder Roc, A Renaissance Resort and Spa

Interesting

You'll be surprised by what a Renaissance hotel is and isn't. It isn't dull, predictable or typical. It is expressive design, award-winning restaurants and savvy, intuitive service. After one stay, your preconceptions of a hotel may never be the same. For reservations at any of the over 120 Renaissance locations, call your travel agent or 1-800-HOTELS-1 or visit renaissancehotels.com



RENAISSANCE HOTELS

With our compliments, a \$50 certificate.

In appreciation of our guests, present your ticket from any of our airline partners listed below at check-in and receive a \$50 certificate toward your next two-night stay at any Renaissance hotel. This offer is good through June 30*

Renaissance participates in the Marriott Rewards® program.

American Airlines® **Delta** **UNITED**

*This offer is valid for stays at participating Renaissance hotels. Offer is good through June 30, 2004. One \$50 certificate will be issued per stay. Offer is subject to change without notice. © 2004 Marriott International, Inc. All rights reserved.

EDITED BY MONICA ROMAN

BIG BANKS, LITTLE LENDING

BANKS CONTINUED TO TIGHTEN their purse strings through 2002, leading to the steepest drops in corporate lending in 30 years. A Federal Reserve study released on Apr. 26 found that big banks had \$1.02 trillion in commercial loans outstanding through Apr. 17, down 7.1% from a year earlier. The drop comes as corporate defaults reach record levels, prompting lenders such as J.P. Morgan Chase and Citigroup to pull back from providing standby lines of credit. These lines generally remain unused until a borrower is in trouble.

UAL NEEDS A NEW PILOT

SIX MONTHS AFTER STEPPING in as an interim boss, UAL Chairman and CEO John Creighton announced on Apr. 30 that he would leave United Airlines as soon as a permanent successor can be found. Creighton, 69, a retired Weyerhaeuser chairman who had been a UAL director, was picked to lead the nation's No. 2 carrier after the board ousted James Goodwin in late October. While Creighton managed to pull United back from the brink of bankruptcy, management has yet to wring concessions from labor unions that Creighton insists are necessary for the airline's long-term survival. The pilots union has agreed to discuss temporary givebacks, but two other unions—the machinists and the flight attendants—refuse to consider pay cuts.

ed Airlines as soon as a permanent successor can be found. Creighton, 69, a retired Weyerhaeuser chairman who had been a UAL director, was picked to lead the nation's No. 2 carrier after the board ousted James Goodwin in late October. While Creighton managed to pull United back from the brink of bankruptcy, management has yet to wring concessions from labor unions that Creighton insists are necessary for the airline's long-term survival. The pilots union has agreed to discuss temporary givebacks, but two other unions—the machinists and the flight attendants—refuse to consider pay cuts.

DISNEY: THAT'S NOT ENTERTAINMENT

WALT DISNEY'S ABC RATINGS doldrums claimed a second victim with the Apr. 30 resignation of ABC Television President Steve Bornstein, who said he is leaving to "pursue other interests." Four months ago, ABC programming head Stuart Bloomberg departed as ratings plummeted. Under pressure from Wall Street, Disney also revamped its corporate governance rules by raising stock ownership requirements for board members and prohibiting business relationships between the company and board members. In addition, the media giant has hired corporate governance attorney Ira Millstein as an adviser.

A REAL DEAL FOR SONY

SONY TOOK A 1% STAKE IN RealNetworks and forged stronger ties with the digital media software company on Apr. 30. And while the investment, roughly \$11 million, is modest, the deal solidifies the bond between

HEADLINER: HANK GREENBERG

AIG: THE NEXT GENERATION

AT 77, SOME EXECUTIVES might start to think about retirement. Not Hank Greenberg, chairman and CEO of American International Group. On May 1, partly in response to continued questions about management succession, Greenberg appointed AIG veterans Martin Sullivan and Edmund Tse as co-chief operating officers, named Frank Zarb as chairman of the board's executive committee, and established a new office of the chairman.

What the insurance titan didn't reveal was when he might actually step down. "It's not going to be 10

years," says Greenberg, joking that it could actually be longer, despite 35 years at the helm. "Everybody ages differently." The new organization chart probably won't cut into Greenberg's work schedule, which generally runs from early morning to midnight. But Greenberg does expect the new appointees to take on a higher profile and more responsibility. And he wants the next leader to be young enough to have a long run in office. That might suggest Sullivan, at 47 the youngest among them, has the best shot.

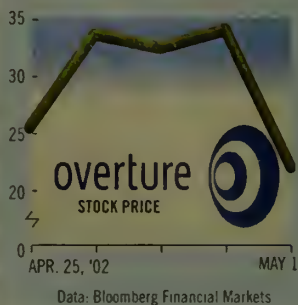
Diane Brau



CLOSING BELL

UNDERTURE

Shares of Overture Services sank 35.7%, to \$21.99, on May 1, after AOL replaced the Web-search company's pay-per-click product with Google's rival service. Overture, formerly GoTo.com, expects to earn \$60 million on sales of \$530 million this year. But investors remain jumpy as Google continues to steal business from Overture.



two rivals of Microsoft. Sony increasingly competes with Microsoft through game consoles and new technology to create a hub for digital activity in the home. Two years ago, Sony and Real inked an agreement to collaborate on digital media technology for PCs. This time, the pact calls for collaboration on non-PC devices, though the companies declined to disclose the specific products involved.

LET THE HP-COMPAQ MERGER BEGIN

HEWLETT-PACKARD CEO CARLY Fiorina's marathon effort to buy Compaq Computer is over. After a proxy battle by founding family member Walter Hewlett, the \$18 billion deal has cleared what appears to be its last hurdle. On Apr. 30, Delaware Chancery Court Judge William Chandler III dismissed Hewlett's lawsuit against the com-

pany. The strongly worded opinion cleared Fiorina of wrongdoing in wooing shareholder votes. But now comes the hard part. While experts have praised the comparative integration plans, merging two computer giants is a gargantuan task. As the market leader in PCs, roughly 40% of HP's revenues will be exposed to fiercely competitive Dell Computer. And Fiorina faces morale problems with staffers who didn't support the merger, which becomes official on May 7.

ET CETERA...

- Cisco Systems will acquire Hammerhead Networks and Navarro Networks for up to \$258 million in stock.
- Priceline.com reported first quarter net income of \$1 million.
- Kmart will delay filing annual report with the SEC until it reviews its accounting.

1° of separation between
mi casa

and su casa.



When software lets companies collaborate better by linking them closer together, that's business with .NET. Making seamless connections with your business partners helps you team up in new and powerful ways. .NET connected software from Microsoft links your systems with those of outside companies, regardless of existing platforms or programming languages. So now, data and ideas flow freely between organizations, which allows for unprecedented collaboration and opens the door to new partnership opportunities. That's one degree of separation. That's business with .NET. Find out how .NET connected software can help you forge closer connections with your partners. Go to microsoft.com/enterprise Software for the Agile Business.

Dollar Rent A Car wanted to let potential partners directly access its mainframe-based reservation system via the Internet. Using .NET connected software from Microsoft, they built an interface application that has already produced thousands of new reservations and millions of dollars in additional revenue.

Microsoft

power

to stay out of the dark and in the light.

When seconds are measured in millions of dollars, reliable network power is vital. That's why businesses count on the superior technology of Emerson. In fact, Emerson Network Power is making critical downtime situations obsolete. The high-nines reliability of our automatic transfer switching, surge suppression, redundant power and cooling systems is helping keep high-speed data and telecom businesses worldwide up and running. Ready to see the light? Visit us at GoToEmerson.com and consider it solved.

The Emerson logo is a trademark and a service mark of Emerson Electric Co. © 2002 Emerson Electric Co.



EMERSON
CONSIDER IT SOLVED

NETWORK POWER • POWER MANAGEMENT • ENERGY EFFICIENCY • SURGE PROTECTION
TRANSFORMER AUTOMATION • DISTRIBUTION TECHNOLOGIES • INDUSTRIAL TECHNOLOGIES • TRANSMISSION TECHNOLOGIES

EDITED BY RICHARD S. DUNHAM

WANTED: MORE DISCLOSURE FROM FANNIE AND FREDDIE

Supporters of Fannie Mae and Freddie Mac rejoiced two years ago when the mortgage finance firms disarmed critics on Capitol Hill and inside the Clinton White House by agreeing to a series of largely cosmetic changes in the way they do business. But no one is partying now.

Enron's implosion has put Fannie and Freddie in the political crosshairs once more. And this time the threat may be more serious. A clutch of critics—from conservative ideologues against big government to liberal advocates of more affordable housing—have seized on the scandal to argue that, like Enron, the two companies keep investors in the dark and don't disclose enough information about their operations, including risky trading in derivatives.

Behind the charges: concern that future financial missteps by Fannie and Freddie could send tremors through the financial markets and the economy, leaving the government on the hook for a multibillion-dollar bailout. Thanks to implicit federal subsidies, the two have grown so large through their issuance of mortgage-backed securities that they account for nearly half of the home-finance market.

Now, worried lawmakers are preparing to move on the real estate giants. A bill introduced by Representatives Christopher Shays (Conn.) and Edward J. Markey (D-Mass.) would tighten the regulatory reins by requiring Fannie and Freddie to register with the Securities & Exchange Commission all the securities they issue, just as every other publicly traded company does. "In this day and age of Enron, we want to make sure that investors have information," says Shays, whose district is home to Fannie and Freddie competitor GE Capital. Longtime critic Representative Richard H. D. (R-La.) promises hearings before his Financial Services committee this summer.

The Shays-Markey bill has gained unexpected momentum.

Supporters of Fannie Mae and Freddie Mac rejoiced two years ago when the mortgage finance firms disarmed critics on Capitol Hill and inside the Clinton White House by agreeing to a series of largely cosmetic changes in the way they do business. But no one is partying now. Enron's implosion has put Fannie and Freddie in the political crosshairs once more. And this time the threat may be more serious. A clutch of critics—from conservative ideologues against big government to liberal advocates of more affordable housing—have seized on the scandal to argue that, like Enron, the two companies keep investors in the dark and don't disclose enough information about their operations, including risky trading in derivatives. Behind the charges: concern that future financial missteps by Fannie and Freddie could send tremors through the financial markets and the economy, leaving the government on the hook for a multibillion-dollar bailout. Thanks to implicit federal subsidies, the two have grown so large through their issuance of mortgage-backed securities that they account for nearly half of the home-finance market. Now, worried lawmakers are preparing to move on the real estate giants. A bill introduced by Representatives Christopher Shays (Conn.) and Edward J. Markey (D-Mass.) would tighten the regulatory reins by requiring Fannie and Freddie to register with the Securities & Exchange Commission all the securities they issue, just as every other publicly traded company does. "In this day and age of Enron, we want to make sure that investors have information," says Shays, whose district is home to Fannie and Freddie competitor GE Capital. Longtime critic Representative Richard H. D. (R-La.) promises hearings before his Financial Services committee this summer.

The Shays-Markey bill has gained unexpected momentum.



EN GARDE: Fannie's Raines

In a speech on Apr. 22, Fed Chairman Alan Greenspan—whom Shays says privately backs the thrust of his bill—warned that banks selling derivative contracts to Fannie and Freddie may be taking too many risks because of the perception that the agencies have the full faith and credit backing of the feds. Even the Office of Federal Housing Enterprise Oversight, criticized for being lax as watchdog of Fannie and Freddie, is getting into the act. It has set up a working group on derivatives trading at the two agencies and,

with the SEC, is reviewing disclosure practices. A report is due at the end of the summer.

Fannie's politically astute CEO, former Clinton budget director Franklin D. Raines, and Freddie CEO Leland C. Brendsel are fighting back. They contend that the housing market would be disrupted if they had to register securities with the SEC. The companies add that they voluntarily reveal far more about their operations than other private-sector firms.

To back that up, Freddie hired former SEC General Counsel Edward F. Greene to evaluate its financial reports, and he gave them a thumbs-up. Still, both Fannie and Freddie in the past month have given investors more information about derivatives trading and dealings in their shares by their executives.

Critics acknowledge they face an uphill battle. Both companies are being helped by groups ranging from the National Association of Realtors to the National Urban League. And Treasury Secretary Paul H. O'Neill, who has close ties to Raines, has signaled he thinks Fannie and Freddie can improve financial disclosure on their own.

Up to now, Fannie and Freddie have remained in control of events. But as other business giants, from IBM to General Electric, have learned, the Enron scandal might be the force that alters the path of even the most powerful corporations.

By Rich Miller

CAPITAL WRAPUP

NIGHT CITY LIGHTS

Two former big-city mayors are helping Democrats make electoral inroads in the suburbs. Both Ron Kirk of Dallas, who's seeking a Senate seat, and Philadelphia's Ed Rendell, running for Pennsylvania governor, are fiscal moderates with strong business ties. Polls show Kirk leading GOP nominee John Cornyn in the normally Republican Dallas metro area. And thousands of suburban Philly Republicans have switched party affiliation to back Rendell in the May 21 Democratic primary.

MAN VS. MONSTER

► Monster.com Chairman Andrew McKelvey has made enemies by funding Americans for Gun Safety. With AGS targeting GOP Senate incumbents in Colorado and Oregon, NRA CEO Wayne LaPierre is shooting back. McKelvey, says LaPierre, "sounds a lot like Osama bin Laden and the al Qaeda: a billionaire with an extremist political agenda, subverting honest diplomacy, using personal wealth to train and deploy activists." LaPierre's words speak for themselves, says McKelvey.

BROADBAND BABIES

► The Baby Bells are pressing ahead with their effort to have the Hill help stoke broadband services. Faced with stiff opposition from Senate Commerce Committee Chairman Ernest F. Hollings (D-S.C.), they found friends in Senators John Breaux (D-La.) and Don Nickles (R-Okla.), who on Apr. 30 introduced a bill to provide regulatory relief to the Bells in the broadband market. Expect a costly lobbying blitz as the Bells try to roll the wily Commerce boss.

ITALY

RUNNING ON EMPTY

Can anyone save Fiat?

Clad elegantly in dark suits and power ties, the political elite of Italy gathered on Apr. 11 at the Quirinale, Rome's fortress-like 16th century presidential palace.

The occasion: the launch of the Lancia Thesis, a new luxury car built by Fiat. The ceremony was a heartening interlude for Fiat group Chief Executive Paolo Cantarella, who has been struggling to contain the losses and rebuild the market share of the Turin-based company. Pier Ferdinando Casini, the president of Parliament's lower house, called for the country to buy Italian and "be a bit nationalistic." Prime Minister Silvio Berlusconi made the symbolic move of placing an order. "As far as I'm concerned, Fiat has one new customer as of today," said the billionaire politician, who owns a Mercedes.

Berlusconi, who once crooned for his supper on a cruise ship, has a performer's flair for the perfect gesture. Fiat desperately needs new customers. Since the early 1990s, the Italian carmaker has ceded a third of its market share in Europe.

In the past 25 years, Fiat has had several near-death experiences and always managed a friendly bailout. "We've been through many crises. It was worse in 1993," says Cantarella, referring to the year when huge losses prompted an emergency \$2.5 billion recapitalization by Fiat's bankers.

Yet there's a growing consensus in the industry that the bailouts did little to revitalize Fiat, which was once Europe's largest carmaker.

Its strategy of moving upmarket is foundering: Sales of the all-important Stilo, a midpriced compact designed to compete with the Volkswagen Golf, are running at only 60% of forecasts. Since 1998, Fiat Auto has lost \$2.5 billion, including \$1.3 billion in 2001. Although analysts had forecast less red ink this year, projected losses of \$270 million in the first quarter have them grabbing for their calculators. "Fiat [Auto] is finished," says a top exec at a European rival, echoing the view of dozens of car-industry managers, suppliers, ex-Fiat execs, investment bankers, consultants, and analysts interviewed by *BusinessWeek*. Many in the industry predict Fiat will wind up as a division of a much larger global carmaker.



CRISIS MODE
Fiat group CEO Cantarella could fall victim to a restructuring

How this saga unfolds has profound implications for the company's founding family, for General Motors Corp., and for Italy itself. Fiat was founded 103 years ago by the grandfather of Giovanni Agnelli. At 82, "Gianni" is still the unofficial *padrone* of Italy Inc. and the honorary chairman of Fiat group. Though brother Umberto, 67, has diversified the clan's business, the car company still makes up 42% of revenues. Selling Fiat Auto, or presiding over its final decline, would be a devastating blow to Gianni's prestige.

But if losses continue,

even the charismatic Gianni may have trouble keeping the family under sway. Some 100 descendants of founder hold a 30.5% stake in Fiat group, which, besides Fiat Auto, has interests in insurance, farm and construction equipment, publishing, energy, trucks, aircraft engines, and Ferrarini. "Fiat isn't an automotive company; it's a national industrial conglomerate in disguise," says Stephen B. Cheetham, an analyst at Sanford C. Bernstein Co.

The top brass at GM are watching family drama with keen interest. GM clinched a deal in 2000 that gave Detroit giant 20% of Fiat Auto for \$1 billion. GM also agreed to a "put option" that allows Fiat to sell the remainder to GM, starting in 2004, at a market price. If Fiat group fails to reverse the auto unit's decline over the next 18 months, GM may have to swallow a deal that forestalls its own turnaround. Sources close to GM management say GM Vice-Chairman and Chief Financial Officer John M. Devine, who joined GM after the deal was made, sees it as risky and is making moves to build up cash reserves. Devine will say that GM is "war-gaming" strategies to handle its worrisome engagement with Fiat.





ALLED
Auto's
ise would
k Italy Inc.

buying the rest of Fiat would cost. Cantarella and his boss, Fiat group chairman Paolo Fresco, still express optimism. They say Fiat is suffering from a cyclical downturn and that new models such as the Stilo and the Thesis will bolster sales. They insist a December restructuring at Fiat Auto, including the closure of 18 plants and 6,000 jobs outside Italy, will stanch the flow of red ink. Meanwhile, plans this year to spend \$2.7 billion in group assets should a cash-flow crunch.

But there's a lot of red ink to stanch. Last year when it lost \$704 million, Fiat also had to shell out \$1 billion in interest payments. Over the past two years, capital expenditure has exceeded cash flow from operations by \$2 billion.

Fiat. Meanwhile, in Europe, GM is still struggling to turn around its Opel unit and can ill afford the \$2 billion to \$4 billion

against receivables is a common practice and less expensive than other forms of borrowing. But even Fresco admits that Fiat Auto's losses are unsustainable. "Over time, no one can keep filling a black hole," he says. On Apr. 25, rating agency Standard & Poor's placed Fiat's short-term corporate credit rating on CreditWatch, with negative implications.

Umberto, edged out as Fiat Auto chairman in 1990 by Gianni, has long advocated the sale of the car unit. Insiders say backing for Umberto has grown since March, when heavy losses prompted Fiat group to cut its dividend by 50%. Umberto declined to comment. But on Apr. 29, Gianni issued a statement: "I want to again emphasize that we believe in Fiat Auto."

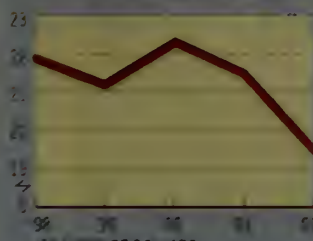
Given Fiat's accelerating decline, rumors of a management shakeup are flying. Gianni also stated on Apr. 29 that Cantarella and Fresco have his full support and would be nominated for reappointment at a May 14 shareholders'

meeting. Still, some insiders say more executives could go. "Cantarella will be ousted," says a top Italian manager close to the family. "The problem is, they don't know who to put in his place." Fresco says Cantarella's job is secure.

Fresco, vice-chairman at General Electric Co. before retiring in 1998, wants to push Fiat's hierarchical management culture into the 21st century. Last year, he hired GE's former boss Jack Welch to consult on human-resources. Welch, who claims no knowledge of a pending management shakeup, says Fiat suffers from too many layers of management and a consensus culture that protects underperformers. "Getting competitive is a long-term project," he says. "One thing I tell them is they have to get more candor in the appraisal system. People have to know where they stand."

The man who must carry out these management changes at the carmaker is newly named Fiat Auto CEO Giancarlo Boschetti, 62. GM execs are desperately hoping that Boschetti will turn Fiat Auto around. There's no out for GM if the Agnellis decide to exercise their put in 2004. Fiat can opt to sell to someone else as long as it permits GM to make its own offer—and auto industry experts believe Fiat may well be forced to sell before 2004. The longer Fiat waits, however, the harder it will be to interest a

FIAT AUTO'S SALES ARE SLIPPING...



▲ BILLIONS OF DOLLARS
*CONVERTED BY REUTERS FROM FIGURES

...IT'S MIRED IN LOSSES...



▲ BILLIONS OF DOLLARS
*MINUS AUTO OPERATING EXPENSE

...IT'S FALLING BEHIND COMPETITORS*



▲ PERCENT
*EXCLUDING LANCIA AND ALFA ROMEO

...AND ITS STOCK IS SINKING



▲ DOLLARS

Source: For Fiat Auto, Reuters; For Fiat Group, Bloomberg; For Fiat Auto, Reuters; For Fiat Group, Bloomberg

IF THE AGNELLIS SELL FIAT AUTO, GM MAY HAVE TO BUY THE 80% STAKE IT DOESN'T OWN. IT'S A DEAL GM CAN ILL AFFORD



Fiat is even losing ground fast in its home market

third party, since GM and Fiat are working to merge their model lineups on the same platforms starting in 2005.

Meanwhile, Fiat's market share in Italy has slid from 44% in 1992 to under 32% in March. Everyone from taxi drivers to students are snapping up Japanese, French, and German cars. Roberto Crovato, a 55-year-old engineer from Milan, just bought a Jazz from Honda Motor Co. "Fiat cars are very expen-

sive," says Crovato. "They cost too much for what they offer."

Fresco insists the company can still survive as an independent auto maker. He gestures to the cast wrapped around his leg, acquired when he broke his ankle recently. "My leg is not working, but my head and my arms are fine, and I'm getting around," he says. "And guess what? My leg will heal. The same goes for Fiat Auto. The rest of the group is healthy." If a cure depended

only on Fresco's powerful faith, might be right. But this may be a turnaround no one can pull off.

By Gail Edmondson in Turin, Diane Brady in New York, David W. in Detroit, and bureau reports

BusinessWeek

For an interview with Fiat group Chairman Paolo Fresco and CEO Paolo Cantarella, go to the May 13 issue online at www.businessweek.com

WHO'LL TAKE OVER FROM THE PATRIARCHS?

Often called Italy's uncrowned king, Giovanni Agnelli, 82, has long presided over one of Europe's most powerful industrial dynasties. The *Avvocato*, or "the

Lawyer," has mesmerized an entire nation

with his wit, urbane style, and aristocratic demeanor. In his younger days, he

lived a

fantasy

lifestyle,

mingling

easily with

Hollywood

celebrities

and the political

elite, from

Ava Gardner

to John F.

Kennedy. He

wielded autocratic control over the family's empire and exercised extensive influence over Italy Inc.'s feudal network of power. He even admonished prime ministers when he chose. Above all, "Gianni" reigned supreme in the extended clan. "No one dared to get in his way," says one banker who knows the family well.

Now, more than a century since Giovanni's grandfather founded Fiat with \$400 in capital, the Agnelli court is short on family members interested in the car business. Some 100 descendants dabble in everything from fashion design to private banking. Gianni's niece Priscilla, for example, is a photographer and author of a recent book on life in the Hamptons on Long Island, N. Y. Priscilla, the

daughter of Gianni's sister Susanna, married flamboyant American entrepreneur Christopher Whittle. Other family notables include Milan fashion designer Prince Egon von Furstenberg, the son of Gianni's sister Clara.

Yet a leader for the next generation is emerging. Last year, Gianni knighted his grandson John Philip Elkann, 26, managerial successor to the family empire. The son of Gianni's daughter Margherita and French-born writer Alain Elkann, John Philip has already cut his teeth on the Fiat-500 assembly line in Poland and in sales and marketing in France. He sits on the Fiat group board, which includes former General Electric Co. Chairman Jack Welch, who helped arrange a job for Elkann on GE's corporate audit staff.

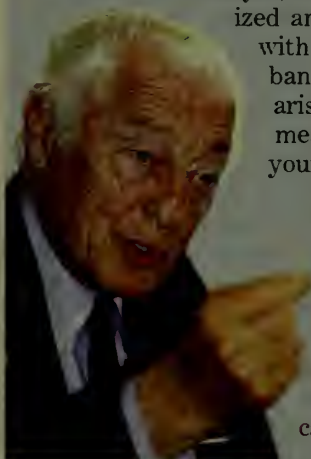
The choice of Elkann, who studied at Turin's Polytechnic University, skips a generation in the House of Agnelli. Gianni's brother Umberto had a son, Giovanni Alberto, who ran Fiat's motor-scooter subsidiary. The nephew was Gianni's chosen successor, but he died of cancer at 33. Gianni's own son Edoardo, who preferred Eastern religions to business, committed suicide in 2000 at the age of 46.

Looking over Elkann's shoulder will be uncle Umberto, 67, who chairs the two holding companies, IFIL and IFI, that control Fiat. Umberto spent decades at the helm of the family's empire, first as chief executive of Fiat group and later as

chairman of Fiat Auto. Umberto favors the sale of the auto maker. His successful diversification of the Agnelli holdings has given Umberto more sway in the family, according to one board member, who says: "I can imagine them selling Fiat Auto now."

Even if they do, the \$52 billion Fiat group will still confer plenty of clout on the Agnellis. And if John Elkann's role as heir apparent seems a challenge for his tender age, it's not a first. Gianni himself took the mantle from his own grandfather, joining the board in 1943 at age 22.

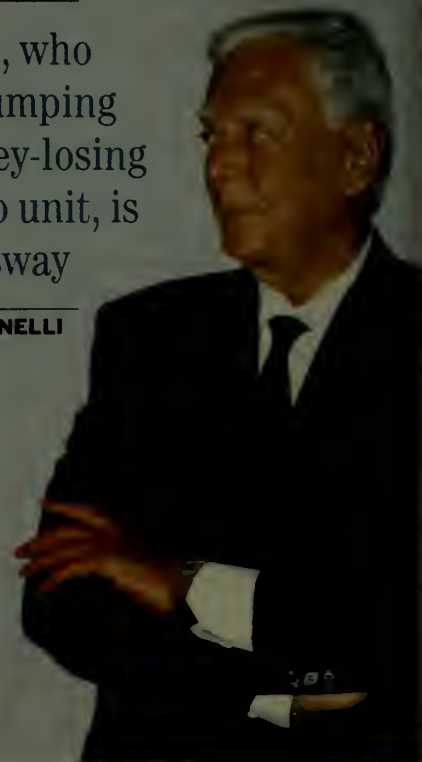
By Gail Edmondson and Kate Carlisle in Rome



GIANNI AGNELLI

Umberto, who favors dumping the money-losing Fiat Auto unit, is gaining sway

UMBERTO AGNELLI





How the FIFA World Cup™ kicked off an IP telephony first. *The largest sporting event in the world, the FIFA World Cup™ utilizes over 40,000 volunteers and 12,000 media personnel who must communicate between 20 venues in 2 countries, 24-hours a day. And they needed an IP telephony solution that could work with it all. So they chose Avaya to build one of the world's largest converged networks. Our IP solution gave them the same features and functionality of sophisticated office phone systems, with the ability to talk, transmit data, manage e-mail, faxes and even wireless communications simultaneously — all over a single network. For a white paper detailing how Avaya is powering the FIFA World Cup™, visit avaya.com/nowtwo.*

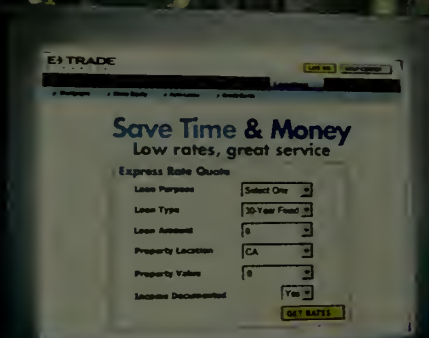


AVAYA

OFFICIAL PARTNER

With mortgage rates this low, you may find yourself asking some questions when house hunting, like "Does the east wing also have a pool?"

You may be surprised to learn just how much house you can actually afford. Considering we guarantee the lowest combination of rates and fees on new home loans and refinances. And with the help of our personal loan consultants, there's nothing intimidating or complex about it either. Whether you're on the phone or online, the whole application process takes just minutes. E*TRADE Financial. More of what you need to stay ahead in today's economy.



The image shows a computer monitor in the center, displaying the E*TRADE Financial website. The website has a dark header with the E*TRADE logo. Below the header, the text "Save Time & Money" is prominently displayed, followed by "Low rates, great service". Underneath, there is a section titled "Express Rate Quote" with several dropdown menus for "Loan Purpose", "Loan Type", "Loan Amount", "Property Location", and "Property Value". A "Yes" button is visible for "Income Documented". At the bottom of the form is a "GET RATES" button. The background of the advertisement is a dark, nighttime scene of a house with some lights on, and a path leading towards it.

Visit etrade.com, call 1-800-ETRADE1 or stop by any of our twenty four E*TRADE Financial locations.

E*TRADE[®]
FINANCIAL

PLANNING • INVESTING • BANKING • LENDING • ADVICE

Mortgage products and services are offered by E*TRADE Mortgage Corp., a wholly owned subsidiary of E*TRADE Bank. © 2007 E*TRADE Capital, Inc. All rights reserved. E*TRADE is a registered trademark of E*TRADE Capital, Inc. or its subsidiaries.

EDITED BY ROSE BRADY

THIS DARK HORSE COULD TAKE KOREA IN A NEW DIRECTION

It's a key question in Asian politics: Who will succeed Kim Dae Jung as President of South Korea? The 79-year-old former dissident has used his five-year term to introduce economic reforms. But recent scandals so tarred his administration that opposition Grand National Party candidate Hoi Chang looked like a shoo-in as next President.

Now a dark horse has emerged from the ranks of Kim's Millennium Democratic Party. Roh Moo Hyun, 55, a left-leaning labor and human rights lawyer, has beaten all contenders in the MDP primaries ended Apr. 27. And he's leading by 10 to 20 percentage points in the polls. As a result, in the December presidential election "Korean voters will have the widest choice ever," says Yoon Young, dean of the Graduate School of Politics at Seoul's Kookmin University.

If Koreans do pick Roh, it will be a dramatic sign the country is ready for a much younger generation of leaders. Kim Dae Jung's departure ends the era of "three Kims"—the other two are former President Kim Young Sam and former Prime Minister Kim Jong Pil—who have dominated the Korean political scene for decades. Since he is 11 years younger than his opponent, Roh is a fresh face. "We need new politics," he says, pledging to shun the traditional top-down Presidential style. Instead, he promises "power-sharing" and "open, shared, horizontal" leadership. If elected, he vows to break with the practice of having the President serve also as party chief—the chief power broker who chooses legislative candidates.

The election will also determine the pace of reform in South Korea, as well as its relations with North Korea. Roh reports Kim's "sunshine policy" of warming relations with North Korea through food aid and economic links. Expanding that policy could trigger tension with the U.S., which takes a

tougher line. The conservative Lee's policy toward Pyongyang mirrors that of President George W. Bush's. Both oppose detente with the North until it shows progress on nuclear talks or pulls back troops from the demilitarized zone.

Roh's and Lee's policies toward the *chaebol*—the conglomerates that dominate Korea—also contrast sharply. Roh wants to break the family control of the giants once and for all by handing more power to minority shareholders and independent directors. Lee, an official in the government of former President Kim Young Sam, is backed by the *chaebol*. He would probably loosen the law so the *chaebol* could have greater control of banks—a move strongly opposed by Roh,



ROH: *Catching on with the under-30 set*

who says he wants to distribute "the national wealth more equally." Roh, who worked in construction before teaching himself the law, aims for labor reforms such as a shorter workweek.

Perhaps most important, Roh seems bent on shaking up the status quo. Although he worked briefly as Maritime Affairs Minister for Kim Dae Jung and served 1½ terms in the National Assembly, he is running as an outsider. In the primaries, he adroitly used the Internet to build support among under-30 voters. Millions of users logged onto his Web

site to read about his anti-corruption campaign.

As the campaign revs up, Lee is sure to take aim at Roh's relative inexperience, while Roh will label Lee a symbol of the old order. One predictor of Roh's success nationally will be the outcome of local elections in June. In the race for Seoul mayor, Kim Min Seok, 38, a Roh ally and a former student activist, is running against Hyundai Construction ex-President Lee Myung Bak, 60. As young Korea asserts itself, Roh is ready to lead.

By Moon Ihlwan in Seoul and Mark L. Clifford in Hong Kong

GLOBAL WRAPUP

THE WORLD'S WORST JOB

How long will Roberto Lavagna last? That's what everyone in Buenos Aires is debating since Lavagna was sworn in on Apr. 27 as Argentina's sixth Economy Minister in a year. Lavagna, 60, ambassador to the European Union until summoned home urgently, got off to a reasonably good start in coping with Argentina's financial mess. First, he assured investors that Argentina would continue its new policy of allowing the peso to float freely against foreign currencies—contrary to statements by

populist President Eduardo Duhalde, who hinted he would repeg the peso to the dollar. Then, on Apr. 29, calm prevailed as Lavagna reopened the banks and foreign-exchange markets after a weeklong holiday called to prevent financial collapse. The peso strengthened 7.4% against the dollar, and Argentines waited patiently to withdraw limited amounts from the banks.

But Lavagna now faces a huge hurdle. He must fashion a plan for bailing out the banks, which have been reeling since the government converted \$60 billion in dollar-denominated deposits into

devalued pesos in January. And he must hammer out details of a broad new agreement between Duhalde and 23 provincial governors to slash spending.

If Lavagna succeeds, he may be able to renew talks with the International Monetary Fund on a much-needed \$9 billion rescue package. But Duhalde may refuse to preside over IMF-imposed austerity programs that could trigger a popular backlash. In that case, Lavagna would also be out. And Duhalde could find that his only remaining choice is to resign after calling new elections.

By Joshua Goodman in Buenos Aires

How E-Biz

Rose, Fell, and will

RISE ANEW

As in previous tech upheavals, solid expansion may come now that a shakeout has cleared the tracks

The economy is stuck in the doldrums, thanks largely to the broken promises of technology. Dazzled by seemingly limitless returns, bankers had funded hundreds of companies, all going after the same dubious markets. Heedless, individual investors clamored to get into the stock market, driving share prices to unheard-of levels. Soon, the overheated market crashed, turning the new heroes of business into goats and scoundrels. Now, disillusionment reigns, and nobody knows what's going to happen next.

Sound familiar? Maybe it's not as familiar as you might think. The year is 1850. The place is England. And the new technology is the steam lo-

comotive. In a surprising number of ways, railroads were the Internet of 150 years ago. And not just because rails, like the Internet today, connected people and markets much faster than any previous method of transport. "Railway Mania"—as that short period of British stock market lunacy was called—was every bit as nutty as the Internet bubble. Hundreds of companies, many

promoting rail lines between small towns, hawked stock well in advance of construction. It all fell apart in 1847, when railroad shares plunged 85% and hundreds of businesses, even banks, went belly-up. What happened next is even more fascinating. After the bust, train traffic in Britain leveled off briefly, in 1848, before resuming a steady climb. By 1870, just two decades after the crash, railroads were carrying 322 million passengers a year, more than four times as many as in 1850. For all its pain, the bust cleared the tracks of speculative stock plays and swindles, leaving only the most solid companies to survive. The remaining companies, says W. Brian Arthur, an economist at the Santa Fe Institute, a think tank, went on to produce the industry's greatest growth and greatest impact on business and society.

For a rising chorus of economists and business historians, the railroad's parallels with the Internet are too striking to ignore. Defying the downbeat attitude toward the Net these days, they are making a bold prediction: The same decades-long build-out that marked the post-crash railroad revolution will play out during the Information Revolution, led today by the Internet. If they're right, e-business may well be poised for its own long, steady build-out for decades to come. "Up to now, it has been pretty hard going," says Andrew J. Ball, president of Webcor Builders, a San Mateo (Calif.) construction company that has struggled for years to link its part-

Special Report

THE FUTURE OF E-BUSINESS

For a rising chorus of economists and business historians, the railroad's parallels with the Internet are too striking to ignore. Defying the downbeat attitude toward the Net these days, they are making a bold prediction: The same decades-long build-out that marked the post-crash railroad revolution will play out during the Information Revolution, led today by the Internet. If they're right, e-business may well be poised for its own long, steady build-out for decades to come. "Up to now, it has been pretty hard going," says Andrew J. Ball, president of Webcor Builders, a San Mateo (Calif.) construction company that has struggled for years to link its part-

VIKTOR KOEN



The number of Net users keeps rising—by 27%

ners over the Web. "Now is the time when we'll see the real advances."

History, however, is not destiny. For one thing, the Internet is only the latest development in the larger information-technology revolution, so it may not pack the wallop of railroads, electricity, or the automobile. And not all new technologies exhibit precisely the same patterns. Nuclear power, for one, has yet to return from its bust after the Three Mile Island accident in Pennsylvania in 1979. And to be truly pervasive, the Internet will require myriad supporting technologies and regulations to become universally useful. Railroads needed every accessory from the telegraph to toilets, the automobile's spread depended on the federal government funding interstate highways, and personal computers needed packaged software, the mouse, and more. There's no guarantee these helper technologies or government aid will materialize for the Internet.

Most important, industry infrastructure and people's habits take years to change, no matter how compelling a new technology may be. The emerging Net-driven corporate model, which taps networks to coordinate a vast phalanx of partners, is so difficult to operate that even some of its most advanced proponents, such as Cisco Systems Inc., have stumbled. That's why many businesses remain hesitant to take the e-biz plunge. Nearly 90% of 1,026 companies surveyed by Forrester Research Inc. are doing some kind of e-commerce, but far fewer are doing the really big stuff: Only about one-third have supply-chain management projects or are running

customer-relationship management programs—the most popular Net-connected projects today. "It will take a very long

time before the economywide effects of the Internet come through," says Chris Freeman, emeritus professor at Britain's University of Sussex and author of *As Time Goes By: From the Industrial Revolutions to the Information Revolution*. "It requires a huge process of learning and cultural change."

For that reason, the next phase of e-business will be nothing like the dot-com era. For all its insanity and subsequent pain, that frenzy—like others in history—served a valuable purpose: The infrastructure for e-business was created with amazing speed. But the new era's motto is no longer "Get big fast." And it certainly isn't "Get rich quick." Instead, the new mantra is almost puritanical: "Work hard now." And it's not the financiers, whose momentum-driven reign on the Net has come to an end, who are writing the checks. With venture capitalists avoiding Internet business plans as if they were month-old herring, it's up to the folks who actually buy the stuff to drive it into widespread use. Indeed, the e-biz build-out, if and when it comes, will be relatively slow, marked by further ups and downs. It isn't that innovative new technologies and ideas won't continue to bubble up. It's just that they won't produce upstarts with bottomless budgets and limitless goals. Much of the work will be aimed, instead, at helping existing companies use the Internet to cut costs, serve customers better, and open new markets. And because the new Net style will have to coexist for some time with old methods, the ultimate payoff in lower costs and greater productivity may still be many years away.

For both remaining dot-coms and traditional companies embracing the Net, that means a long period of developing and deploying the gritty stuff. There's much work to be done, from installing thousands of access points for wireless networks to hashing out arcane data-interchange standards and rolling out broadband links to the masses. "Everybody knows where this is going to end up: Business goes electronic," says Christian A. Larsen, CEO of online mortgage lender E-Loan Inc. "Now, it's really about putting our heads down. We've got a lot of wood to chop."

The notion that e-business is due for a comeback may sound daft. After all, many of the dot-coms are dead and gone. E-business leaders such as Amazon.com Inc. and Cisco face continuing doubts about their business models. Many traditional titans that bet on e-business, from Levi Strauss & Co. to Chevron-Texaco Corp., stumbled in their online efforts. Even the term "e-business" is so discredited that General Motors Corp.—which incessantly plugged its e-GM unit from 1999 until folding it into its info-tech department last fall—now insists on calling its continuing e-business efforts "digitization." Growls James A. Champy, author of *X-Engineering the Corporation: Reinventing Your Business in the Digital Age* and chairman of Perot Systems Corp.'s consulting practice: "We're in a big stall."

Yet the lessons of history indicate that this holding pattern may not be permanent. It turns out that the similar dynamics of railroads and the Internet aren't simply an odd coincidence. According to Venezuelan economic researcher Carlota Perez, author of the upcoming *Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages*, the same pattern holds for three other tech-driven economic movements as well: the Industrial Revolution of the late 1700s in England, the age of cheap steel and electricity in the late 1800s in the U.S. and Germany, and the automobile and mass-production era starting about 1910. After a gestation period of a decade or more, the new technology usually sparks a boom followed by a sudden bust, leading to widespread doubts.

Today, says Perez, "the

The Evolution Of REVOLUTION

RAILROADS

Growth of rail traffic in Great Britain



1825 Debut of the "Rocket" steam locomotive in Rainham, England, by Liverpool & Manchester Railway.



1840s Panic passes 20 million, measuring enabling construction inflating bubble became as "Railway Mania."

1847 The rail market crash shares tumble 85%.



1850-1900 Strong growth length tripled, to 19,400 miles

Special Report

THE FUTURE OF E-BUSINESS

time before the economywide effects of the Internet come through," says Chris Freeman, emeritus professor at Britain's University of Sussex and author of *As Time Goes By: From the Industrial Revolutions to the Information Revolution*. "It requires a huge process of learning and cultural change."

For that reason, the next phase of e-business will be nothing like the dot-com era. For all its insanity and subsequent pain, that frenzy—like others in history—served a valuable purpose: The infrastructure for e-business was created with amazing speed. But the new era's motto is no longer "Get big fast." And it certainly isn't "Get rich quick." Instead, the new mantra is almost puritanical: "Work hard now." And it's not the financiers, whose momentum-driven reign on the Net has come to an end, who are writing the checks. With venture capitalists avoiding Internet business plans as if they were month-old herring, it's up to the folks who actually buy the stuff to drive it into widespread use.

Indeed, the e-biz build-out, if and when it comes, will be relatively slow, marked by further ups and downs. It isn't that innovative new technologies and ideas won't continue to bubble up. It's just that they won't produce upstarts with bottomless budgets and limitless goals. Much of the work will be aimed, instead, at helping existing companies use the Internet to cut costs, serve customers better, and open new markets. And because the new Net style will have to coexist for some time with old methods, the ultimate payoff in lower costs and greater productivity may still be many years away.

For both remaining dot-coms and traditional companies embracing the Net, that means a long period of developing and deploying the gritty stuff. There's much work to be done, from installing thousands of access points for wireless

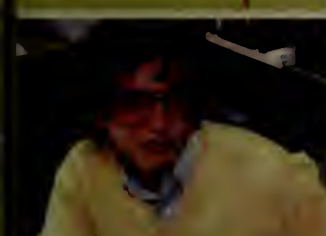
01—for a total of 500 million worldwide

World is once again at a crossroads where explanations and guiding criteria are sorely needed." And that's where her work and Freeman's provide some possible answers. What typically follows these uncertain periods, in fact, is several decades of sustained build-out, in which the technology drives the entire economy and becomes essential to business and society. The key to seizing the opportunities is patience, say

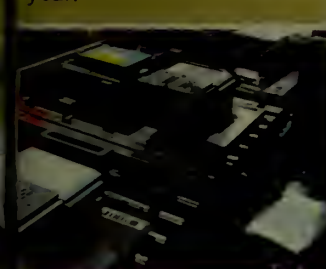
Technologies typically follow a 50-year-plus cycle of gestation followed by a boom and bust. Fully after the bust that the strongest growth begins

PERSONAL COMPUTERS

(millions of units)



Microsoft founder Bill Gates sells MS-DOS to run on new PCs. The package is a selling 200,000 units in year.



en by the development of software such as spreadsheet Lotus 1-2-3, resume strong, non- with.

THE INTERNET

Number of Internet users worldwide



1983 The term Internet is first used as standards for the global network are established by pioneers such as Vinton Cerf.



1993 A team led by Marc Andreessen develops the Web browser at the National Center for Supercomputing Applications in Illinois.



2000 Nasdaq tumbles 25% during the week of Apr. 10, the start of the dot-com crash.

2001-2002 The number of Internet users and e-commerce sales continues to grow strongly, while Internet companies begin to reach profitability.

Perez and Freeman: Despite the rapid rise and collapse of the bubble, the cycle can take at least 50 years to play out from initial breakthrough to maturity.

The Internet's cycle may well prove shorter, since some economists think the Net's impact won't match that of the Industrial Revolution or the railroads. But it is clearly the latest technology to seize the banner of the Information Revolution—and perhaps the most powerful force yet, thanks to the instant, infinitely adaptable global connections it makes possible. Consider the longevity of the IT revolution's previous standard bearer: the PC. After Apple Computer Inc. popularized the device in the 1970s, the IBM PC sparked a mid-1980s boom. Overcapacity led to a wrenching shakeout in 1985, which killed countless PC and component makers. But after the bust, PC sales dipped only slightly. Then, in the next 15 years, they shot up eightfold, to 131 million units in 2000—creating such new giants as Microsoft, Intel, and Dell Computer—before falling 4% last year.

All this suggests that the Internet—which wasn't widely used on a commercial basis until 1995—has years to go before its ride is over. The latest data, in fact, show continued growth, even after dot-com shares started to crash in April, 2000. The number of Internet users worldwide is still rising—by 48% in 2000 and 27% in 2001, to more than 500 million people today, according to researcher IDC. And even as venture funding of Net companies fell 71% last year, IDC says Internet trade between businesses rose 73%, to \$496 billion, and online retail spending rose 56%, to \$112 billion, in the worst retail year in a decade. Even perennial cash incinerator Amazon.com turned its first-ever net profit in the 2001 holiday quarter.

Yet with e-commerce accounting for less than 2% of all trade, it's clear that the Net is still in the Model T stage. The build-out to come will take a winding path, often in fits and starts, as people, companies, and governmental organizations adapt their work and lives to take advantage of the new technologies.

First on the build-out agenda are myriad supporting technologies that make the Net easier to use. The electric ignition, for instance, banished the auto's cumbersome hand-crank starter. Likewise, broadband connections eliminate the dial-up-and-wait of modems, providing instant access that prompts people to meld the Net into their daily lives. "Technology has to be comfortable," says Arthur. Some new innovations promise to free people from mundane tech tasks altogether. As cheaper and smaller computers find their way into everything from air conditioners to factory robots, those devices can communicate directly with each other over the Internet. Wal-Mart Stores Inc., for instance, is experimenting with radio-frequency identification tags—tiny chips that soon will cost only a few cents. These let computers track products as they move from truck to warehouse to store—replacing repeated human scanning of bar codes.

The real imperative for the next few years, though, will be adapting new technology to people and their work, rather than forcing people to adapt to it. The emergence of packaged software made the PC easier to use by freeing people from having to learn programming. Similarly, so-called Web services are emerging that could make the Net a much smoother experience by essentially turning software into a

(TOP TO BOTTOM, LEFT TO RIGHT) BILLTAMM/CORBIS; CULVER PICTURES; MILEPOST 924/CORBIS; COURTESY INTEL; DOUG WILSON/STOCKPHOTO; COMBLACK STAR; COURTESY COMPAQ; COURTESY WORLDWIDE; ANDY FREIHERG; CHRIS HONDRIG/GETTY IMAGES

"There is no reason
for any individual
to have a computer
in their home."

1977

"640K ought
to be enough
for anybody."

1984

"Portal,
schmortal."

2002

(Pooh-pooh it now, while you still can.)

Welcome skeptics, cynics, and naysayers.

Every major innovation in technology has initially been met with more than a little resistance. And portal technology is no different. But, like the other innovations, today's curiosity is well on its way to becoming tomorrow's necessity. Why? Because, quite simply, CleverPath™ Portal and Business Intelligence solutions from CA let you work smarter and more efficiently than ever before. Not tomorrow. Not someday. Right now.

Work faster. Work smarter. Work together. You'd be surprised how much simpler doing business can be with the right tools. CleverPath Portal is designed to be highly intuitive, so you can quickly navigate your way to exactly what you need. It delivers real-time sales data, email, and inventory-level indicators without having to open and close multiple applications every time. Legacy systems, mainframes, desktops, Web Services, and mobile devices are now seamlessly integrated, so you can access a vast breadth of information from anywhere and pull it from one single, secure portal. You can also rely on it to automate your business processes, eliminating all the time you now waste trying to get the right information into the right hands. And, thanks to our business intelligence tools, over time, it can learn your preferences and deliver them before you even ask.

CleverPathTM

Portal and Business Intelligence Solutions

Start working now.

The CleverPath Portal "deploy first, customize later" model means you can install and implement production-ready systems in days or weeks, delivering tangible ROI almost immediately. CleverPath Portal helps control costs in other ways. CleverPath Portal delivers a high degree of scalability in the real world so you can handle millions of users. And flexible licensing means you can select the payment and licensing options that best suit your individual business needs, whatever they may be.

The CleverPath family at work.

CleverPath is more than just a single portal product. It's a family of unified portal and business intelligence solutions that deliver unique, online analytical analysis, reporting, dashboard development, business rules automation, predictive analysis, and visualization capabilities. And that means delivery of the right information to the right people at the right time—all in a personalized way. Don't spend another day without tapping into the true value of your enterprise.

Go to ca.com/cleverpath/portal and find out more now.



Computer AssociatesTM

HELLO TOMORROW™ | WE ARE COMPUTER ASSOCIATES | THE SOFTWARE THAT MANAGES eBUSINESS™

©2002 Computer Associates International, Inc. (CA) All trademarks, trade names, service marks and logos referenced herein belong to their respective companies.

Dell once kept 32 days' worth of stock. Now, it's 4

service available online. Travel site Expedia.com, for example, recently introduced online alerts that find you via computer, cell phone, or pager if your flight is delayed, then let your family know when you'll land.

Special Report

THE FUTURE OF E-BUSINESS

nologies, people and organizations inevitably must change how they do things to tap into the opportunities. That was how leaders in previous tech revolutions leaped ahead. In the late 1700s, for instance, pottery entrepreneur Josiah Wedgwood pioneered productivity-boosting ideas in factory organization and the division of labor—not only building a company that endures to this day but spurring a wholesale change in manufacturing.

In the Information Age, the Net is accelerating the rollout of a new model: the networked corporation. Embodied by such leaders as Dell and Cisco, these corporations outsource whatever can be done better by someone else. But—ideally, at least—they keep an eye on what partners are doing by sharing information across entire supply chains linked over the Net. Dell, for instance, uses the Web to stay in touch with everyone from chipmakers and disk-drive producers to customers large and small. Keeping close tabs over the Net allows Dell to maintain just four days' worth of inventory, down from 32 days in 1995.

Yet this model is incredibly tough to execute. The evidence: Few corporations so far have fully embraced it. And some that have done so have a lot to learn. Cisco, for instance, missed a severe downturn in its business in late 2000 because its system didn't recognize that customers had double-ordered as a way to guarantee deliveries of much-needed networking gear, which was in short supply. That led to losses and Cisco's first layoffs. The lesson here is that companies need to alter old processes and encourage their partners to do the same. It's always this way with tech revolutions, says author Perez: "Each involved profound changes in people, organizations, and skills in a sort of habit-breaking hurricane."

Consider the case of Boise Office Solutions. The office products subsidiary of paper giant Boise Cascade

As the technology opens up new vistas, even greater changes will be needed. In a constant give-and-take with the new tech-

Corp. has moved successfully to the Net. Some 30% of its \$1 billion in annual sales are online, and that's expected to rise 45% this year. The result: savings of at least \$585,000 a year so far, and each percentage point rise in online sales is expected to add \$100,000 in additional savings. But Web sales created huge upheaval in the call-center operation, says David A. Goudge, senior vice-president for marketing at Boise Office Solutions. If the Web-sales estimates are even off, the call-center unit suddenly can be way overstaffed—understaffed—in turn forcing the call-center manager to change how the unit is run.

To help managers and employees deal with all the turn of events, Boise brought in consultant Peppers & Rogers Group to teach them how to deal with constant change. "We're handling nitroglycerin," says Goudge. "Don't underestimate the change."

An E-Business ROAD MAP

WHAT'S NEXT

DOT-COMS WILL LIVE At least 25% of publicly held Internet companies are profitable—more than what bullish analysts had predicted. That, combined with low stock prices, could make them targets for bricks seeking more clicks.

FORGET THE FINANCIERS Tech build-out is driven by users, not venture capitalists. Venture funding of Net startups fell 71% last year, while online business trade rose 73%.

CORPORATE WALLS WILL CRUMBLE By using the Net to cut the cost of interacting with suppliers and partners, the lines between companies will blur.

MACHINES WILL DO THE TALKING Before long, billions of sensors and millions of computers will use the Net to complete transactions with no human intervention.

E-BIZ WILL BE ALL BIZ When companies started using the telephone, no one called it t-business. The Internet's growth may have prompted different treatment for a while. But now the Net is simply a tool for doing business.

WHAT TO DO

THROTTLE THE CORPORATE BORDER PATROL To tap the Net's potential for distributing decision-making, companies must flatten hierarchies. Online marketplace eBay has customers help devise new features and police the site.

LISTEN TO THE WEIRDOS After wacky new dot-com ideas failed, it's easy to think imagination is the enemy. But conventional wisdom yields conventional profits—or none at all.

CALL OFF THE LAWYERS Using courts to stop music and video downloads, à la Disney and Sony, is a loser's game. Instead, record companies should offer CD buyers extras.

SHARE THE NET'S POWER WITH THE PEOPLE Especially with customers. Amazon.com provides product reviews—even negative ones—by buyers. Result: Some 80% of its sales are from return clients.

FINISH THE INFO HIGHWAY E-business may not require high-speed lines to every household—but they would help. Meanwhile, the industry needs to improve performance of existing networks.





INSTRUMENTS FOR PROFESSIONALS
 BREITLING has a single-minded commitment to building ultra-precise and ultra-reliable wrist instruments intended for the most demanding professionals. Our obsession with quality. Our goal is performance. Day after day, we consistently enhance the sturdiness and functionality of our chronographs. And we submit all our movements to the merciless testing procedures of the Swiss Official Chronometer Testing Institute (COSC). One simply does not become an aviation supplier by chance.



Westtime de Pavillon
 10801 W. Pico Blvd. • Los Angeles, CA
 310-410-1388 • 888-9-westtime
www.westtimewatches.com

FOR A CATALOG, PLEASE CALL 800-641-7447

WWW.BREITLING.COM



BREITLING
 1884

INSTRUMENTS FOR PROFESSIONALS®

The Net may raise U.S. incomes \$1,500 by 2010

in management needed to calm people down." He has that right. According to Forrester Research Inc., 40% of companies that adopted programs to manage the inevitable change in processes when they installed online purchasing systems reduced their costs. In contrast, only 3% of companies that didn't do so saved money.

Indeed, the people factor is usually a tougher problem than any technical difficulties. Online alcoholic beverage marketplace eSkye Solutions Inc., for instance, ran smack into the status quo, even though founder J. Smoke Wallin knew his stuff: He was the scion of a family that ran Indianapolis distributor National Wine & Spirits Inc. Both distributors and buyers liked the system's speed, but "these are busy people, and at the end of the day, the old system was easy," says Wallin. Last year, eSkye began selling software to manage online beverage procurement. Even so, he says, business is slow: "The biggest hurdle going forward will be getting people to change their behavior."

Most of the time, making such changes will simply take sheer dogged persistence. Gilbert Papazian II, CEO of South San Francisco (Calif.) produce distributor Lucky Strike Farms, was pitched by more than 30 dot-com produce marketplaces. At first, he threw them all out because they didn't know his industry. But Rob Bonavito, CEO of iTradeNet-

BEARING FRUIT
San Francisco produce man Papazian got pitches from 30 dot-com marketplaces



worked by copyright laws. But as Andrew S. Grove, chairman of chipmaker Intel Corp. says, useful "technology always wins in the end."

That's more likely to happen in the Internet's case if companies realize the Web is a tool to improve business processes—not a business unto itself. Citigroup blew more than \$1 billion between 1998 and 2000 on e-Citi, a separate vision charged with making the company a leading Net player. But the services never gained traction. One reason: e-customers couldn't use Citibank teller machines. Last fall, Citigroup folded e-Citi back into the mother ship. Since then, Citigroup's online customer base has shot up 80%, to 10 million.

The rewards of e-business—along with all its wrenching change and hard work—are considerable. Already, a group of economists polled by the Brookings Institution last year estimated that the Internet is adding one-fourth to one-half percentage point to productivity in the U.S. alone. Extrapolating that one-third of a point over the next decade would add roughly \$1,500 a year to the average American's annual income by the year 2010, according to Brookings economist Robert E. Litan. And the studies Litan cites don't measure convenience,

greater choice, time savings and other benefits.

Such numbers also fail to measure the transformational changes sweeping across business. There's a risk in assuming that current measures of benefits tell the whole story. Says Paul Saffo, a director at Institute for the Future, a Silicon Valley research group: "Applying metrics on this is like putting road signs on sand dunes." Fact is, all the uncertainty today, the Internet and the new work business model already are the common sense of commerce—even if not all businesses yet choose or know how to apply them. "I think the Internet is like electricity," says Dell CEO Michael S. Dell. Making that notion isn't common sense quite yet. But history is any guide, it will be one day.

*By Robert D. Hof in San Mateo, Calif.
with Steve Hamm in New York*

Special Report

THE FUTURE OF E-BUSINESS

finally developed a useful online system for produce buyers and sellers to streamline their transactions, reducing paper and fax transactions. Says Papazian: "Once I started using the system, it was great."

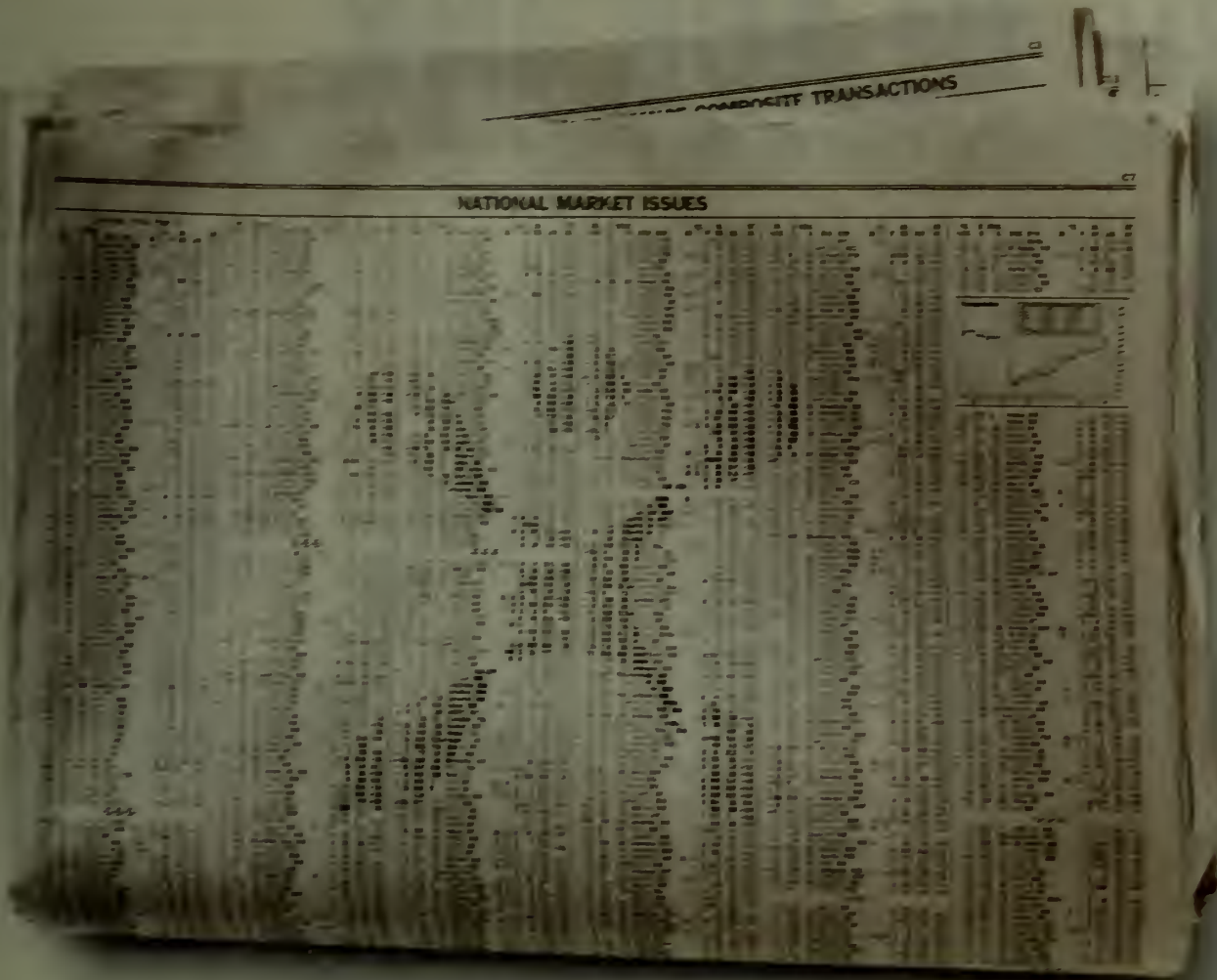
Still, some companies and industries simply don't want to adapt, often out of fear they will lose control of their business. The music industry, for instance, is waging war against everyone from file-sharing purveyors such as Napster and Kazaa to PC makers Apple and Gateway, which build machines that can download music and copy compact discs. Indeed, Hollywood's success in persuading the courts to clamp down on new technologies points up yet another brake on technology: law. In past tech revolutions, regulation often lags both technology and organizational change. In the PC era, it took the courts years to decide that software, and even the code embedded in chips, should be pro-

tection, begging Papazian to teach him the business. Papazian kept making suggestions until the dot-com



GROWING PAINS

At Boise Office Solutions, Web sales created huge upheaval at call centers, Goudge says



WHEN NEARLY HALF THE FORTUNE® 1000 ARE YOUR CLIENTS, YOU TEND TO STAND OUT.

When leading companies need a wireless partner to keep things moving, they turn to us. With over 20 million subscribers nationwide, it's no wonder that businesses rely on Cingular. We provide services such as business calling plans, corporate mail, interactive messaging, and CRM solutions. Maybe it's

time you noticed the shape business is taking to express itself. Give us a call at 1-866-281-7551, or visit us on the Internet at www.cingular.com/business. Also, feel free to download our "orange" paper, Executive Guide to Enterprise-Wide Wireless Data Strategies, when you visit our website.

 **cingular**
WIRELESS

Break Out The **BLACK INK**

Profitable dot-coms? Being in the right business helps

One of the lingering effects of the dot-com bust is that the phrase "profitable Internet company" has become a sniggering joke. In this sadder-but-wiser era, it's the ultimate oxymoron. Even CEOs of Internet companies can't resist getting in their digs. When asked how many Net companies are making money, Srivats Sampath, the boss of profitable online software maker McAfee.com Corp., quips: "About four?" Fortunately for his stockholders, Sampath is better at running his company than he is at sizing up the performance of his e-business peers.

This is the Net's pretty little secret: By our count, 52 Net companies were profitable last quarter, and analysts project that at least four more will clear the bar by yearend. There are two ways of putting the numbers into context. Of the 456 Internet companies that went public since 1994, 11% are profitable. If you look at just the 208 public Net companies that are still in business and were not acquired, a full 25% make money. If you count companies that profit on a pro forma basis—before noncash charges, that is—another 30 or so are in the black. The market "has weeded out bad companies very quickly. And the rest have reduced their operating losses dramatically," says Greg Kyle, CEO of market researcher Pegasus Research International, and a longtime bear on Net stocks.

Profits are coming in from all over. The big winners are e-travel and e-finance—headlined, respectively, by Expedia and Priceline and by IndyMac and Schwab. But almost every Web sector has at least a couple of profitable public companies.

Special Report

THE FUTURE OF E-BUSINESS

Here's a surprise: Health services company WebMD Corp., once branded a loser, is making money before noncash accounting charges. And forget the notion that mixing the Internet with physical stores is the only way to make money online: Virtually all the profitable Web companies are selling information-based products rather than items that require shipping. So they don't need bricks to go with their clicks.

Nor do dot-coms rely any longer on pro forma accounting to show profits. Indeed, the oft-criticized gap between net income under generally accepted accounting principles and Web companies' pro forma results has never been smaller. Why? Lower stock prices mean noncash stock option payments take a smaller bite out of earnings. Also, companies can now write off merger-related goodwill in a single stroke, rather than taking write-offs every quarter for years. That boosts the quality of earnings at companies such as e-tailer Amazon.com Inc. Its stock compensation costs fell from \$11 million in 2001's first quarter to \$3 million in the quarter ended Mar. 31. Goodwill amortization fell from \$51 million to \$2 million. Analysts now say Amazon will break even for the year—not in pro forma earnings but by conservative accounting principles.

Indeed, our rules for sizing up the profit picture are conservative in a number of ways. We don't count profitable startups that were acquired, such as travel agency Travelocity.com Inc. Nor do we count businesses that have become profitable since being bought out, such as online dating site Match.com. We also don't count private companies such as search company Google Inc., which claims to be profitable.

The education of the first wave of Web companies is hardly over. But their performance so far works out to a C average on our report card—an average that should rise over the next two years. Here are our grades for eight of the economy's biggest sectors:

Travel **A**

The valedictorian so far. The three remaining public companies are profitable—Expedia, Hotels.com, and Priceline. Travelocity was profitable when it merged with Sabre Inc. in April.

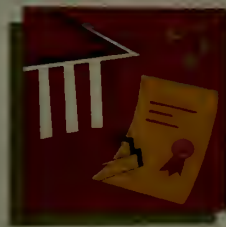


The reason Web travel agencies make money is simple: Travel reservations are just data, which can be shipped easily over the Net. And the interactive nature of the medium lets customers do more research on vacation options online than they can do with brochures.

Even the ever-slimming commissions agencies collect on airline tickets are tidily profitable once the agencies get big enough. And now they are. Lead agency Expedia Inc. got \$123 million in travel commissions last year, up 107%, but the cost of processing those reservations rose just 57%, to \$53.4 million. What's more, smart online agencies have protected themselves against falling commissions by moving into the tour-packaging business.

Finance **A-**

Ten public companies are profitable—with up to five more due to be profitable by yearend. Online brokers are in the black, despite slow trading volume. Now, online mortgage, tax-prep, and banking companies are joining them.



E-finance has the same advantages as online travel: a bottomless ability to crunch numbers and compare products and no boxes to ship. Online brokers such as E*Trade Group Inc. and Charles Schwab & Co. began making money first—and still do, despite trading declines that have prompted consolidations.

The Web's impact on financial services is hard to miss. Productivity gains already are beating bullish forecasts, and established companies are responding. No. 1 mortgage lender Washington Mutual Inc. issued \$60 billion in loans on the Web last

**"We told KPMG Consulting:
we need a web-based
enrollment system so simple..."**



*Mark Hammersmith
CIO Institutional Business, MetLife*

*Paul McDonnell
Managing Director, Financial Services, KPMG Consulting*

"...that our MetLife customers can more easily manage their financial future.

"The MetLife mission is to build financial freedom for our customers. KPMG Consulting worked with us to design and build an on-line system faster than we had thought possible. The new system gives our customers a single site for enrollment, product information, and performance.

"Our customers and our own employees are very happy with their 'new freedom.' Customer satisfaction scores are up, and so are employee productivity and our operating earnings."

"We're delighted that we surprised MetLife with how quickly we were able to help them design and build their new on-line system.

"But we're even happier that the system helped them become an even more successful company.

"After all, that's the reason we're in business."

YOU CAN HEAR THEIR STORY @ www.kpmgconsulting.com/results

BUSINESS SYSTEMS: STRATEGY IMPLEMENTATION RESULTS

KPMG Consulting

year. Online brokers forced incumbents such as Merrill Lynch & Co. to slash commissions. And market researcher Gartner Group Inc. says 25 million Americans will pay bills online this year.

Media and advertising **B-**

Eight of the 50 that went public are profitable. The ad slump hurts, but online media is still a \$7 billion business. AOL Time Warner Inc. is the Goliath, while specialty sites such as job site Monster.com make money, too.



It's easy to snark about Web advertising. Boosters promised hypercatchy ads that would be targeted at precisely the right customers. Moreover, they said consumers' behavior could be predicted by tracking what Web pages they visited. That hasn't happened. Still, profits have arrived for companies that handle ad-

vertising innovatively—such as Overture Services Inc.'s paid-search engine. Bottom line: Advertising is a cyclical business, online advertising included. Web advertising may not become more effective than other media soon, but it can support a number of companies with even a modest recovery.

Retail **C+**

Five of the 40 that went public are profitable, including 1-800-Flowers.com Inc. and teen site Alloy Inc. Amazon.com should join the group with a good Christmas. About a dozen of the public e-tailers failed.



Funny, but there was no recession in online retailing last year. Sales rose 13% last Christmas, to \$10 billion, compared with a 2% gain in total shopping. The gorilla: Amazon, whose Christmas and first quarter beat expectations. The one to watch: Ticketmaster, which books about 35% of its ticket sales online—

and operates the Match.com dating site and the CitySearch hometown activities sites. Ticketmaster is looking for more Net acquisitions.

Exchanges **C**

eBay is one of only two exchange companies to make money. Still, corporate-auction site FreeMarkets Inc. and hospital supply exchange Neoforma Inc. are making progress.



Online exchanges were supposed to transform business by squeezing inefficiencies from business-to-business deals and putting buyers and sellers in direct contact with one another. And they were supposed to do it by, say, Tuesday. Oops! Still, three years after they debuted with much fanfare, enough is happening that exchanges aren't a total fizzle.

eBay has been the benchmark for profitable online companies. Its magic is that it collects fees on transactions without ever holding inventory. Other companies are now proving that eBay was not a fluke. Online bond exchange eSpeed Inc. made \$7.8 million in the fourth quarter. ESpeed's success was especially poignant: The Web spin-off of Cantor Fitzgerald LP saw its automated bond-trading system help the parent company keep going after the World Trade Center attack killed 658 Cantor and eSpeed employees.

Software **C**

Only 14 out of about 150 companies are profitable. The makers are Intuit Inc. and McAfee.com, which deliver software over the Web mostly to consumers. Startups that target corporations, including Commerce One Inc., have had problems.



This sector has gotten whipped harder by the corporate spending slump than by the dot-com bust—although both hurt. It was investment delays by companies that crimped companies such as Commerce One, Ariba, and i2 Technologies, which were about as big as the Internet rock stars as anyone could get in 1999. BroadVision Inc. and Art Technology Group Inc. are scrambling to make themselves more enterprise-friendly and less focused on e-commerce. It could be a tough road.

Access/Infrastructure **D+**

Seven companies out of 80 are profitable. Startups bet big that companies would outsource major computing applications to others. Those bets haven't paid off.



Remember back in April, 2000, when venture-capital incubator Safeguard Scientifics Inc. rattled Web stocks by saying it would invest only in "infrastructure" companies? Bad plan. Infrastructure is among the Web's toughest businesses. The reason: A lot of companies wanted either to sell out or to get Internet access or convince corporations to hire someone to run their computing applications and deliver them via the Web. The profitable ones are mainly companies that provide services corporations can't easily provide for themselves. Example: WebEx Communications Inc., a seller of Web-conferencing services. An uptick will come only when businesses decide to risk handing their operations over to outsiders in exchange for fewer headaches.

Consulting **F**

Only 3 of the 14 public companies make money—Modem Media, Razorfish, and Inforte. Consultants such as Scient Inc. hammered when corporations lost interest in e-commerce.



Of all the mind-bending Web moments, one of the most recent came when left-for-dead Razorfish reported a first quarter profit of \$2.5 million. The Web consulting industry was one of the first Net businesses to make money. (Pioneer, Sapient Corp., reported income every year from 1997 to 2000. But the whole sector crashed in 2000 because e-commerce boom led them all to expand their stakes too fast—then the bust left them with sky-high expenses. And don't look for lots of comeback stories. The business that's around now comes from bigger companies that are customers of giants such as Electronic Data Systems Corp. and IBM.

Amazon, Priceline.com Inc., and their dot-com brethren may never again be as sexy as they once were, but they're shaping up to be far sounder companies. If this profit-mal trend continues, we may have to coin a new name for the comeback kids.

By Timothy J. Mullaney in New York

More life.

Novartis is giving women with cancer more days to love, to work, to live...each year.

For Michelle, what a difference each day makes.



Michelle's cancer had been in remission for years, but suddenly it reappeared more advanced and deadlier than ever. Michelle's doctor confirmed her fears, and didn't give her long to live. Fortunately, that prognosis isn't coming true. Today, we see a new Michelle, one with new life, energy and purpose. She's even gone back to school to begin a career as a radiology technician, specializing in cancer testing. And Michelle loves commuting to class – with the top down in her newly purchased convertible. Novartis is proud to be the innovative force that's bringing new optimism and hope to patients and their families. No one can promise what the future holds for cancer patients, but today Michelle is holding her own, planning her future and enjoying life.

Think what's possible.

When my cancer came back, they told me I didn't have long to live. Thanks to Novartis, I have my life back and I'm moving ahead."

— Michelle Henderson



NOVARTIS

www.novartis.com

Is there something you don't know
about your *cost structure*?

Are there leaks in your cost structure? Do you know where those leaks are? If you're working with Business Objects, you'll know. Our business intelligence software gives you instant visibility on costs throughout your organization, and in all your customer and supplier relationships. So you'll have the intelligence you need to keep your costs under control. And your profits from trickling away. Business Objects is the world leader in business intelligence software, with over 15,000 customers. To find out what they know that you may not, visit www.businessobjects.com/finance. And download our free white paper "Business Intelligence – Now More Than Ever." Or call Business Objects at 1-800-527-0580 ext. 35.



BUSINESS OBJECTS®

Business Intelligence. If you have it, you know.™

COMMENTARY

By Andy Reinhardt

LOOK OUT, CHIPMAKERS: THIS UPTURN MAY BE A MIRAGE

At first glance, chipmakers seem to be getting their groove back. After the worst year ever in the semiconductor business, many companies turned in modestly better results for the first three months of 2002. Preliminary figures from the industry's trade group show first-quarter sales advanced from the final three months of 2001—a break from the usual slump at the start of the year. Chip stocks, although flat since Jan. 2, have handily outperformed the Nasdaq's 14% drop. "We're convinced that revenue bottomed out in the first quarter," says Pasquale Pistorio, CEO of STMicroelectronics in Geneva, the world's No. 3 chipmaker. "We're into the new cycle."

Others offer similar hope. Texas Instruments Inc. in Dallas, as well as STMicro, predict second-quarter sales gains of 10% over the first quarter. No. 1 Intel Corp. retains a cautious outlook, with expected second-quarter growth of less than 6%, but said on Apr. 25 it would restart construction of a delayed \$2 billion plant in Ireland. And Fairchild Semiconductor International Inc. in South Portland, Me., is hiring workers to boost output.

No wonder analysts in the past three months have raised their predictions for 2002 semiconductor profit growth from 45% to 76%. And dips historically represent the leading edge of demand for all electronic products.

But there's something troubling about this picture. Although chipmakers see bluer skies ahead, their customers—makers of PCs, communications gear, and consumer electronics—aren't ready to declare the storm over. Many of these manufacturers, which account for the bulk of chip demand, announced rocky first quarters and gloomy outlooks. Mobile-phone giant Nokia Corp. just cut its 2002 industry projection by 20 million handsets, for net growth of only 5% to 10%. Researcher Gartner Group Inc. pegs PC growth this year at just 4%, and even red-hot categories such as digital cameras and DVD players show signs of slowing.

Worst of all is telecom gear: Analysts say sales could plunge as much as 35% this year.

The mismatch in forecasts raises a troubling question: If consumers and corporations aren't buying, where are these chips going, anyway? Right now, they're replenishing depleted

growth once inventories are topped off. "It's *Field of Dreams* all over again," says analyst Ashok Kumar of brokerage U.S. Bancorp Piper Jaffray, referring to that movie's famous "If you build it, they will come" line. "Chipmakers are hoping huge demand will materialize, but so far there's no sign of it."

There are already indications that the pipeline is backing up. Intel and archrival Advanced Micro Devices Inc. together built 4 million to 5 million more PC microprocessors in the first quarter than the market consumed, estimate Lehman Brothers Inc. Spot market prices for dynamic memory chips, which tripled between November and February, have since plunged 30%.

Whence all the euphoria, then? Chip buyers may bear some of the blame. Their "wishful thinking and denial" prompted them to raise orders too fast late last year,

says Malcolm Penn, president of British chip researcher Future Horizons. Thus the chipmakers may be falling into an age-old trap: At the first sign of an upturn, they all jack up production, flooding the market with too many parts that end up marked down or destroyed.

So far, chipmakers are sticking to their guns. Jean-Philippe Dauvin, chief economist at STMicro, admits there could be an "air pocket" between the current inventory replenishment and an upsurge in true demand, which he figures will kick in later this year. That's what all chipmakers are counting on. But if the second half stays bearish, get ready for another agonizing year in chips.

Reinhardt covers European technology from Paris.

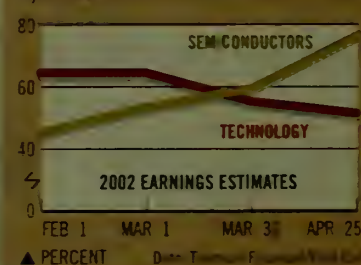


stocks throughout the electronics supply chain, where inventories are near historic lows. In other words, chipmakers may be confusing re-orders from electronics distributors with a genuine uptick in demand. Yet for the industry to see a sustained upturn, parts have to flow out the other end of the pipe within two quarters, or they'll back up into another inventory bubble.

Some of the industry's more skeptical observers see the risk. Although they still think profits will grow from a sickly 2001, they worry about top-line

THE CHIPS ARE UP

Analysts have raised their forecasts for semiconductor earnings growth while lowering expectations for the tech sector as a whole





GET THE FEELING. TOYOTA.
toyota.com



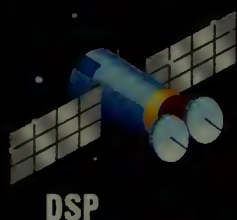
THE TOYOTA AVALON. WITH A CAR THIS LUXURIOUS, ONLY ONE QUESTION REMAINS—SPARKLING OR STILL?

©2001 TOYOTA MOTOR SALES, U.S.A., INC. BUICKS ARE NOT TOYOTA. ALL OTHERS ARE.

MISSILE DEFENSE

EAGLE—OR ALBATROSS?

Next-generation satellites are the eyes and ears of Star Wars. But this glitchy program may not survive



Gunslingers in the Old West would jockey for a position with the sun at their backs. It's also a common military tactic: using the glare to mask an attack. Yet somehow, the problem of looking into the sun was neglected by the engineers who created a vital space-based sensor system for the Pentagon. The instruments could be blinded when peering at regions of the earth backdropped by the sun.

The system's contractor, Lockheed Martin Corp., knew of the problem five years ago—but underestimated its gravity. Then, with just a year to go before a scheduled 2002 launch, the aerospace giant overhauled the design and put "sunglasses" on the satellite sensors. "It's an exceedingly obvious thing that should have been compensated for," notes one dumfounded Defense Dept. insider. Correcting the oversight means a new round of tests, which will contribute to a delay in the launch until at least 2004.

For the program, called Space-Based Infra-Red System High (SBIRS High, or "sibbers," for short), the sunglasses

episode was just one of many glitches. The program is now 70% over its revised \$4 billion budget and 275% over the original figure of \$1.8 billion. Because of the cost overrun, the Defense Dept. must cancel SBIRS High unless it certifies to Congress by May 5 that the system is essential for national security, that costs can be controlled, and that there's no alternative technology. Killing the program would be a huge setback for the missile-defense agenda: It would force the Pentagon to unveil a different, top-secret satellite scheme.

The SBIRS saga is hardly just another tale of a weapons program gone awry. This obscure program is a cornerstone of Defense Secretary Donald H. Rumsfeld's plans to improve missile defense and remote intelligence gathering. But now, E. C. "Pete" Aldridge Jr., former astronaut and current Pentagon acquisitions czar, is mulling whether SBIRS should get the ax. The Air Force and Lockheed Martin are feverishly arguing for its preservation, but neither would talk to *BusinessWeek*.

SBIRS wasn't controversial when it started. Everyone agrees that the current early-warning system, now three decades old, needs to be replaced. After several false starts, the Pentagon settled on SBIRS in the mid-1990s and selected a two-tier approach. SBIRS High would spot missile launches using six satellites, four in geosynchronous and two in highly elliptical orbits (diagram). SBIRS Low, a constellation of 24 satellites, would handle the daunting job of distinguishing real warheads from decoys. Of the two, SBIRS High "was supposed to be the easy one," recalls Phyllis E. Coyle, a top Pentagon official in the Clinton Administration.

From the start, Lockheed Martin had to contend with bureaucratic twiggling of the sort that has derailed many Pentagon development efforts in the past. For example, the Star Wars program wanted SBIRS High to provide quick launch warnings, and to analyze missile trajectory and other factors to determine whether a rocket was carrying a benign satellite or a warhead. Into



LEO

Sensors in the Sky

A key ingredient in President Bush's missile-defense program is a satellite system called Space-Based Infra-Red System High. Technically ambitious and overbudget, this complex network of birds is designed to watch for rocket launches and identify missiles, using the following elements:

DSP Defense support program is the existing early-warning satellite system—which uses 30-year-old technology.

GEO Four new geostationary earth-orbit satellites are designed to provide better warnings of launches, more data about a rocket's probable target, info about short-range missiles such as Scuds, and intelligence for spy agencies.

HEO Satellites in highly elliptical orbits would linger longer over the polar regions, providing superior data about northern Russia and China, for example.

LEO A constellation of low-earth-orbit satellites will be the centerpiece of a complementary program called SBIRS Low, designed to distinguish real warheads from decoys.

GSF Signals from all the birds are sent or relayed to a consolidated ground station facility in Colorado, or relocatable terminals—essentially satellite dishes on a truck bed or in a van.

Data: BusinessWeek

ice agencies insisted that the system could provide data about activities on ground, including rocket-engine tests. And the Army fought for information about Scud and other short-range missile launches during combat. Companies, meanwhile, battled over which technology would be best for the service's mishmash of tasks. TRW Inc. argued for a straightforward upgrade of its existing imaging system, namely, arrays of detectors. These scan the earth in strips, which are assembled into infrared images. Rivals such as Lockheed Martin campaigned for a different scheme, a "real-plane array" much like what's inside a digital camera. It would look constantly at the whole earth through an electronic shutter, creating complete images. The end result was a complex and expensive compromise. SBIRS High would use a scanning array to detect areas of interest, then switch to a staring array to zero in on those specific targets. Unfortunately, says Theodore A. Postol, a Massachusetts Institute of Technology physicist, "nobody has figured out how

to build a big enough staring array to do the job."

Another problem is the inherent conflict among various missions. For example, peacetime intelligence gathering calls for an extremely sensitive sensor to capture images of small, low-contrast details. But that kind of acuity in a missile-launch detector will produce a deluge of false alarms—especially since staring sensors have a high cry-wolf rate to begin with, says John E. Pike, head of GlobalSecurity.org, a defense-oriented advocacy group.

In addition, there's another type of false positive that remains a major thorn. To calculate the trajectory of a missile launch, two SBIRS High satellites send beams from their sensors toward the target and plot its position by triangulation. This works fine when there's only one target. But multiple targets produce more than twice as many ghost images because the beams intersect in other places. So if a rogue nation actually launched a multimissile attack, the chore of sorting out the real

targets from the ghost ones could overwhelm SBIRS High's computers. That has already happened in one test.

Aerospace veteran Roy Danchick, a mathematician and former TRW senior staff engineer, claims he has devised a ghost-busting solution. It averages the independent tracking data of two birds, avoiding the problems of triangulation. In his tests, he says, the technique exceeded classified goals. But so far, SBIRS managers have shown no interest.

For the program's many woes, there's plenty of blame to go around. Uncle Sam repeatedly changed SBIRS High's requirements, and the Air Force and Congress kept tinkering with the budget, upsetting Lockheed Martin's plans. Analysts also blame a fix in acquisitions policy that was supposed to alleviate backseat driving by giving contractors near-total engineering responsibility. Several sources charge that Lockheed Martin, knowing there would be skimpy oversight, delegated the work to second-tier engineers. This issue also surfaces in a February report for the Air Force by an independent review panel. The Air Force vows rigorous supervision of SBIRS High—if it survives.

On top of all this, there are concerns about the partiality of one person who will help decide if SBIRS High lives or dies. Air Force Under Secretary Peter B. Teets is a former Lockheed Martin exec who left after a 1999 management shakeup. If the project is killed, it could seem like sour grapes on Teets's part; yet if it's saved, that could appear to be due to Teets's former ties. To remove such clouds, some defense experts wish Teets would recuse himself. "You want these multibillion-dollar decisions to be made by the most objective official possible," says Joseph Cirincione, an arms-control expert at the Washington-based Carnegie Endowment for International Peace.

The betting is that SBIRS High will continue for now, but on a short leash. The program could swiftly die should it fail to meet future benchmarks. If SBIRS High does have to be scrapped, it would be a major blow to Rumsfeld's missile-defense goals. In that event, though, there is a fallback: a classified plan from the National Reconnaissance Office, the supersecret outfit that operates America's spy satellites. Rumsfeld's team would rather not play that card for fear of exposing too much of the NRO's shadowy world to the glare of publicity. So Rumsfeld has to be praying that SBIRS High won't get blindsided by still more troubles.

By Stan Crock in Washington

They're asking you to manage a business, not just a data center. Now you're concerned with profitability. Business forecasts. They even want recommendations on system performance over in market.

Is your current software up to the challenge?

This, of course, is why HP has evolved OpenView software from a network management tool into a sophisticated service management solution—covering everything from networks, storage and system services like ERP, e-commerce and center management. Basically, the entire infrastructure on which your business services depend.

So in addition to managing infrastructure, HP OpenView anticipates and resolves problems according to your organization's priorities—by department, service, even line of business.

Increased efficiency. Lower costs. Higher ROI. Being proactive with recommendations. That's what you expect of you. And what you expect from HP OpenView management software.

HP infrastructure solutions are engineered for the real world of business. Because the last time you checked, that's where we all were.

To learn more about how OpenView Management software can help run your business, call 1.800.HPASKME, ext. 246. Or visit www.hp.com/go/infrastructure.

Infrastructure: it starts with

hp infrastructure management

Now, it's time to turn your infrastructure into a business. HP OpenView lets you anticipate, prioritize and fix problems before they impact business.



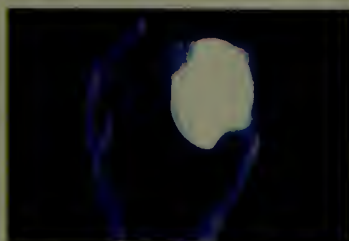
EDITED BY OTIS PORT

GETTING PROTEIN PRODUCTION TO OVERDRIVE

WHAT IF CELLS HAD BUILT-IN dials that could be turned up or down at will, controlling how much protein they make or how fast they make it? That could be a real coup for the biotech industry, which is struggling to keep up with burgeoning demand for protein-based drugs that treat ailments as anemia and rheumatoid arthritis.

James J. Collins, a professor of biomedical engineering at Boston University, and Jeff Boockvar, a research assistant professor, hope to develop a dial. Their plan calls for a "genetic oscillator," consisting of two genes that work together. When linked with other cell-regulating mechanisms, the genes would program cells to make specific amounts of proteins. The basic concept behind regulation is to treat cells as if they were electrical circuits—but substituting genes for transistors. "The focus is on using information about genes and proteins as parts that can be put together in a circuit," says Collins. "It's a synthetic network."

Such an innovation could be useful for more than just boosting drug production. It could help genetic researchers understand cell behavior by allowing them to better manipulate genes in the lab. And eventually, it might also lead to new ways of administering protein-based drugs, which are usually injected—making tech medications more effective and palatable for patients. In theory, doctors could remove some cells, encapsulate this technology in them, and return them to the body, where they could produce the required proteins indefinitely. *Arlene Weintraub*



TRIPPING THE LED FANTASTIC

FORTY YEARS AFTER THEY first appeared, light-emitting diodes are finding lots of uses beyond glowing spots on electronic gear. Next, Sandia National Laboratories aims to overcome the remaining problems that are keeping LEDs from everyday applications.

LEDs have many advantages over incandescent bulbs and even fluorescent tubes. For one, they consume

some one-tenth as much energy. LEDs also last far longer and emit much less heat. As a result, LEDs have become common in traffic signals, taillights, and high-resolution billboards.

Not everything is rosy, though. Lights made with LED chips cost twice as much as incandescent bulbs. And white-light LEDs still have a bluish cast, although blends of colored LEDs can produce white light. Led by Sandia senior scientist James Gee, two dozen researchers are fiddling with gallium-nitride semiconductor crystals, trying to get them to emit whiter light. Sandia is also collaborating with industry on standards for LED lamps to help reduce manufacturing costs. *Michael Arndt*

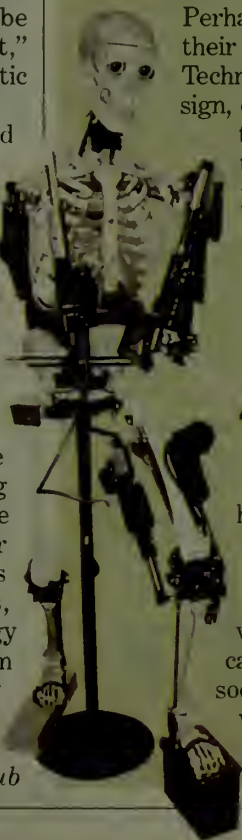
PELE, HAMM, AND NOW...C3PO?

NEXT MONTH, SOCCER FANS WILL BEGIN FLOCKING TO Japan and Korea for this summer's World Cup games. Chances are, few will go to Fukuoka, on the southern island of Kyushu. But there, on the eve of the World Cup's second-round matches, a June 19 kickoff will launch the week-long RoboCup 2002 contest for soccer-playing robots—including the first humanoid-robot matches.

Perhaps a dozen research teams will show off their humanoids. Sweden's Chalmers University of Technology will have four, including a life-size design, dubbed Priscilla, built on a plastic model of the human skeleton—and slated to go toe-to-toe with Murphy, the android from rival Uppsala University. But most players will probably be squat midgets reminiscent of the Sony Dream Robot that kicked a soccer ball at its debut in November, 2000.

The players at the past five annual RoboCup events have been wheeled or four-legged robots—or simulations.

Their soccer skills have grown rapidly. But nobody expects the ersatz humans to come even close to a first-time pre-school player. Robots have only recently learned to walk autonomously on two legs, so taking up a kicking position over a soccer ball, then balancing on one leg and knocking the ball toward a goal signals major progress. And because RoboCup winners share their secrets, soccer skills should spread rapidly. Perhaps within a decade or so, robots will be ready to begin taking on human players. ■



INNOVATIONS

■ Biodegradable plastics with a "shape memory" have been developed at Massachusetts Institute of Technology. They return to a permanent, predefined shape at a specific temperature, but can be compressed or twisted into other shapes at other temperatures. According to MIT chemical engineer Robert Langer, potential applications include temporary medical devices that could be inserted in the body via keyhole surgery, then expanded to their real size—or a thread that reverts to a corkscrew shape to serve as a stent and help keep blood vessels unblocked.

■ Carbon nanotubes have been hailed as the key to revolutionary material properties for everything from biomedical products to chips. Now, those potentials should be easier to commercialize. Researchers at Rice University, led by chemist John Margrave, have found a way to attach fluorine "handles" to the inert carbon molecules. Fluorine is highly chemically active, so the fluorine reaction sites mean compounds containing nanotubes can now be tailored for a wide range of jobs.

■ A mysterious family of membrane filters has been created by a team of Australian and U.S. scientists. The polymer-based filters contain silica nanoparticles whose extremely small size produces very strange results: The membrane's basic filtering capabilities are transformed, resulting in novel "reverse-selective" filters. That means the membranes allow larger molecules to pass through and screen out smaller molecules—the opposite of other filters. As the team reports in the Apr. 19 issue of *Science*, the new filters may find applications in petrochemical refining, drug synthesis, environmental cleanups, and water purification.

CABLE

AOL: JOHN MALONE WANTS TO BE HEARD

The media mogul may be gunning for a seat on the board

Presiding over a meeting of his investors at New York's Hudson Theatre last September, 61-year-old cable titan John C. Malone pretty much summed up his investment strategy. "A down market," he declared, "is a point of opportunity for us." Indeed, John Malone didn't get to be John Malone by sitting on the sidelines during hard times. When Ted Turner faced bankruptcy in 1987, Malone bailed him out. It was Malone's money that early on helped to keep alive the Discovery Channel, Black Entertainment

Television, and Home Shopping Network, now among the hottest properties in cable. So who is Malone looking to rescue these days? AOL Time Warner Inc., the biggest media company in the world, whose shares are down 43% this year.

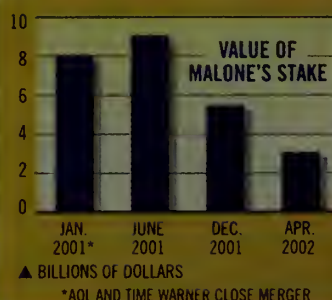
Malone has been keeping a keen eye on his 4% stake in the media giant, the result of Time Warner Inc.'s 1996 acquisition of Turner Broadcasting System Inc. Back then, Malone agreed to not vote the shares or buy more of them. But with AOL Time Warner losing altitude, Malone's Liberty Media Corp., which takes minority positions in media outfits, asked the Federal Trade Commission in March to free it from those restrictions, which the FTC may do as early as June. Now, say sources close to Malone, it is only a matter of time before the Denver deal-

maker makes his move. "I'm sure he wants a seat on the board," says one investment banker with a history of doing deals with Malone, "and when he gets it, he's going to make his voice known." The goal? Insiders say Malone will want to spin off AOL's cable systems, whose value, he believes, is being

A COSTLY YEAR AT AOL

Cable king Malone has lost billions on his 4% stake in the merged media colossus

Data: Bloomberg Financial Markets



dragged down by AOL's other problems.

To get to that point, Malone would have to use some of his legendary deal-making skills. With nearly \$3 billion in cash, Malone could simply buy more AOL shares if the FTC lifts the 4% cap. But Liberty executives are also looking at other moves, say Wall Street sources, that would involve trading stakes in other companies for a larger AOL position. Malone declined to comment, but an AOL spokesman said.

According to bankers and media executives, one possible scenario involves Liberty swapping its 43% stake in shopping channel QVC—valued at \$4.4 billion—with cable giant Comcast, which owns the rest. After adding some cash, Liberty would then get the 25% stake in AOL's Time Warner Entertainment Co. unit (TWE) that Comcast would own if its pending deal to buy AT&T's cable system wins federal regulatory approval later this year. AOL is interested in getting back the 25% but may not have the financial flexibility right now to buy the stake, which has been valued as high as \$10 billion.

If he were to get the TWE stake, Malone could then trade

it for a large share of AOL and a seat on the board. TWE includes

HBO and more than 10 million cable subscribers. "[Malone] is clearly frustrated with AOL Time Warner, which he knows is worth more than the stock it is giving it credit for," says Ajay Mehta, portfolio manager at Columbia Management Group, which owns Liberty shares and a small AOL stake. "If he can align his interests with [incoming AOL CEO Richard M.] Parsons—and bring in TWE could do that—it would be an invaluable asset to the board."

Liberty executives dismiss such a scenario as speculation at the moment. And AOL has been negotiating to buy the stake from Comcast directly. AOL in the past has rejected demands by large investors for board seats—notably, Edgar Bronfman

MY DAYS AS A

CORPORATE RAIDER



BY

✿ KENNY H. ✿

WHEN I DO DRUGS MY MOM AND DAD SPEND THEIR DAYS WORRYING INSTEAD OF WORKING. AND THAT'S GOT A BUNCH OF GUYS IN SUITS SOMEWHERE ALL STRESSED OUT. 'CAUSE IT MEANS KIDS LIKE ME ARE KINDA ROBBING COMPANIES BLIND. ♦ ♦ ♦

I DIDN'T KNOW anything about business at first. I was just a kid who started smoking pot with his friends. That's all. But we got busted a lot for doing it at school and cutting class. And every time that happened, they called my mom at work.

Then she called my dad's office. And together they called my friends' parents – a bunch of times my dad even left work to look for me.

Other times they had to drive to school for talks with my teachers and missed all kinds of meetings and stuff at the office. My mom got behind on her projects. And dad freaked about reports he couldn't finish.

At home, they argued a lot about what they could do with me and finally ended up sending me to this guy like twice a week. Every time I saw him,

we'd talk for an hour. Then mom and dad started seeing him too, almost as much as I was. And when all those bills came, dad just looked at me and said I was lucky he had good insurance at his job.

That was right about the time the guys in suits really started to get stressed. And if you ask me, they probably still are. 'Cause if I can do this, so can any other kid.

WHEN EMPLOYEES have children with substance abuse problems, it may also affect productivity and healthcare costs. But employers can make a difference. Provide parents in your workplace with free, teen drug prevention articles, brochures, posters and tools by visiting our Web site: **EMPLOYERS.** theantidrug.com/workplace THE ANTI-DRUG

Media

Jr., after Seagram bought a large stake in Time Warner in 1993. Moreover, says one AOL executive, Liberty's large programming holdings still make it enough of a competitor to disqualify Malone from a board role. Nonetheless, "if he gets his stake up to \$10 billion, they're going to have to give him a board seat," says one cable executive. And there's no telling what kind of influence Malone and his friend and AOL board member Ted Turner, who owns 3.8% of the company, will wield then, say other media executives.

Once on the board, Malone wouldn't be shy about how to improve the company. As an AT&T board member, he provoked—and won—a fight to force the spin-off of the phone giant's cable system. He might do the same at AOL, forcing a direct sale of the cable unit to the public. As an added twist, Malone could even offer himself up to head the unit, drawing on his own years of experience running Tele-Communications Inc.

Rounding out the picture, say cable execs, Comcast would certainly be interested in taking back the 43% stake in QVC, with its strong cash flow. The timing would be advantageous, just as the cable company wants to show ratings

With Malone on AOL's board, he and friend Ted Turner might rattle some cages

agencies it deserves to maintain its investment-grade status. Comcast also says it has no interest in keeping the TWE stake.

Conversely, though, Malone has reason to hang on to his QVC stake. For one thing, it would give Liberty leverage in making sure Comcast continues to carry other Liberty-owned channels. A possible alternative: Sanford C. Bernstein & Co. analyst Tom Wolzien suggests that Malone could increase his AOL shares by directly swapping Liberty's 50% stake in the lucrative cable property Discovery Channel with AOL. Wolzien values Liberty's stake at \$5.7 billion. "QVC and Discovery are both great assets that any media company would love to have," says Wolzien. "And they're reaching the top of their cycle, where John could get the most for them."

Trying to figure out which way one will turn next is never easy. Liberty has its hands full with problems in Europe, where Malone's majority-controlled United Pan-European Communications is staving off bankruptcy with a big debt restructuring. In January, Malone abandoned a bid to assemble Germany's largest cable system when federal regulators asked for many concessions on his \$4.8 billion to buy six operators. Malone is currently trying to buy a stake in Inc., Britain's largest cable operator. If Malone's *modus operandi*, he has to win control of NTL—and merge with his 25%-owned Telewest Communications PLC—by paying cents on the dollar for NTL's debt.

Liberty's maneuvering in Europe is part of Malone's greater plan to become the world's largest cable operator. In the U.S., he already owns 18% of News Corp. and smaller pieces of Viacom and Vivendi Universal. Now he has his holdings tanked as much, though, as with AOL Time Warner. John Malone, that surely has the fewest opportunities.

*By Ronald Grover in Los Angeles
with Tom Lowry in New York*

DINNER IS NOT THE END OF THE DAY.



IT'S THE BEGINNING OF THE EVENING

For Worldwide Locations and
Reservations call 1 (800) 544-0808
www.ruthschris.com

THE



EXPERIENCE

It may be the only vacation where you come back richer.

INVESTMENT STRATEGIES



Ken Shea

Managing Director
Standard & Poor's

Gain a unique market perspective through the influential S&P 500 index and the favorite sectors and stocks from S&P's team of analysts.

ECONOMIC FORECASTS



Seymour Zucker
Senior Editor
BusinessWeek

Hear views on the economy and benefit from insights acquired from decades of economic and market coverage.

PROFITABLE PORTFOLIOS



Phil Edwards
Managing Director
Standard & Poor's

A review of S&P's current mutual fund recommendations as well as how to make them part of a highly profitable portfolio.

Investment Seminar at Sea

Aboard the award-winning Crystal Symphony 11-day luxury cruise, Nov. 27 to Dec. 10, 2002.

Visiting Tortola, St. Maarten, St. Barts, Aruba, Costa Rica with Panama Canal transit.



BusinessWeek

**STANDARD
& POOR'S**

Limited Space.
For reservations,
call toll-free
1-866-468-5700.



**Deluxe Stateroom
with Veranda**

Deluxe Staterooms
start at \$2,795 per person*

Deluxe Staterooms with Veranda
start at \$4,310 per person*

SEMINAR REGISTRATION FEE
only \$495 additional per person
or \$895 additional per couple



GREAT AMERICAN TRAVEL

Call toll-free 1-866-468-5700

businessweek.greattravel.com

*Fares including port charges based on double occupancy. Call for airfare add-ons. Seminar only available with cruise purchase. All categories subject to prior sale. Ship's registry: Bahamas

PRODUCT LAUNCHES

THIS MARKET JUST ISN'T DEVELOPING

Why the APS film format has fizzled, despite all the hype

The launch in 1996 was the photography industry's most hyped—and heavily budgeted—in years. Given the imposing name Advanced Photo System (APS), the new film-and-camera combination was supposed to reignite waning consumer interest in photography. It was backed by the best marketers in the business. APS' blue-chip roster of developers—Canon, Fuji, Kodak, Minolta, and Nikon—poured more than \$1 billion into

with Fuji Photo Film Co. that was costing it both market share and profits—all while Kodak struggled to prepare for photography's digital future.

APS was billed as a bridge between traditional and digital photography. Each roll of film carries a magnetic coating that records data—lighting conditions, for example—that helps processors improve picture quality. The system also offers a choice of three print shapes off

Small wonder, then, that key players are now jumping ship. Nikon Corp. withdrawn from the U.S. market has Pentax. Konica, Minolta, and Olympus have all halted new models. Kodak and Fuji say they are still committed to APS but have cut back on new products. "We recognize the format we won't achieve some of the goals we originally hoped for," concedes Mark Schneider, a vice-president for consumer imaging at Kodak.

That's a stunning admission, considering how much was riding on APS. Backers figured that the format would ease consumers through a transition to digital photography while carving a permanent role for special-occasion use. But digital cameras hit the consumer market much faster than developers anticipated, and the industry failed to position APS as a worthwhile alternative. "APS was like a half-finished cup of coffee," says marketing consultant Gary Stibel, principal of England Consulting Group. "It



WHAT'S WRONG WITH APS?

MARKETING

Five rivals used different names for their version of the technology, confusing shoppers

ADVERTISING

APS ads are scarce, and those that ran failed to explain the benefits of the concept

PRICING

Consumers hated paying 15% more for APS cartridges than for conventional film

COMPETITION

As prices drop, digital cameras are becoming a more appealing alternative

perfecting and promoting the format. Kodak executives predicted that APS would overtake traditional 35mm film as the primary format for consumers.

Maybe they were looking into the sun when they envisioned those prospects. Far from displacing traditional film, APS barely dented the market. Already, the format is fading fast. A series of marketing snafus, along with a serious misreading of how quickly digital cameras would win over consumers, undermined the new system. The failure has been costly, especially for Eastman Kodak Co., which had the most riding on the new format. By the mid-'90s, Kodak was mired in a brutal price war

the same roll. The real appeal, however, was the product's simplicity. The cameras were smaller and more versatile, and the film came in foolproof cartridges.

For all those benefits, though, APS camera sales peaked at about 20% of film-based cameras sold in 2000, according to the Photo Marketing Association, and have been sagging ever since. In the six months ended Mar. 31, unit sales in the U.S. skidded 40% from the same period a year earlier, according to market researcher NPD Techworld. Meanwhile, digital camera sales popped 42% in the same period.

never compelling for the consumer.

APS struggled from the start. In the system's first year, consumers could always get their hands on the cameras because the industry underestimated demand. When they did get them, it often took days for their film to be processed because one-lane minilabs balked at buying costly processing equipment. Minilab owners worried that APS would suffer the same fate as Kodak's failed Disc 111 in the 1980s, says Jerry Lansky, president of MiniLab Consultants Inc. in Colts Neck, N.J. "APS was very



How can you increase customer profitability?

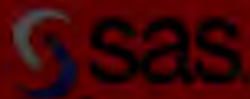
Identify (and keep) your most valuable customers?

And get greater ROI from your marketing campaigns?

SAS® is all you need to know.

Only SAS provides you with a complete view of your customers. So you'll understand their needs, enhance their lifetime value and achieve greater competitive advantage. To find out how leading companies are reaping the rewards of SAS customer intelligence software, visit us at www.sas.com/customer

The Power to Know.



sive right from the start," Lansky says.

APS backers made even bigger goofs in marketing and pricing. Every photo company marketed APS products under a different name: Advantix for Kodak, Smart Film (changed to Nexia in 1999) for Fuji, and Elph for Canon. True, that strategy was partly driven by antitrust considerations, which prevented the format's five co-developers from jointly marketing APS. But by going with widely divergent approaches, they created "a lack of clarity as to what the product category was and what the brands were all about," says Kevin Lane Keller, a marketing professor at Dartmouth's Amos Tuck School of Business.

Despite lavish budgets, they couldn't get the advertising right, either. For a holiday ad in 1996, for example, Kodak tapped Dennis Rodman, the basketball bad boy with the multicolored hair, to promote its Advantix cameras. But the volatile Rodman quickly became known for such crybaby stunts as spouting profanities during a live TV interview and kicking a photographer in the groin. "That was definitely not a Kodak moment," says Dartmouth's Keller.

Pricing was another trouble spot. APS film costs at least 15% more than 35mm film, and many consumers balked at the premium price tag. Customers also never knew how much they would pay for processing. It was difficult to understand the selection process for the three available print shapes, and people who ordered pricey panoramics by mistake experienced severe sticker shock.

APS marketers didn't fumble everything. Kodak went to a more benefit-driven approach in a \$100 million advertising "relaunch" of the product in 1997, highlighting such advantages as klutz-proof film loading. The effort helped to juice sales, but it was too late to assure APS a strong position against by-then ascendant digital cameras.

With digital rapidly taking over the market, many camera makers believe APS' days are numbered. Martin Lee, vice-president for marketing at Olympus Optical Co., says: "I don't know if the advantages of APS are enough to support the product going forward." And retailers are souring on the concept. "APS is dead," says Jack Farber, president of Hunt's Photo & Video, a chain of five camera shops near Boston.

That assessment is too severe. APS still accounts for about 40% of traditional camera sales in Japan, and sales of disposable APS cameras are still rising. But as a mass-market product for U.S. consumers, APS may go down as one of the industry's costliest fiascoes yet, right up there with Disc Cameras and Photo CDs.

By Geoffrey Smith in Boston

Economics

MANUFACTURING

WHERE THE RECOVERY WON'T REACH

Unlike bouncebacks of the past, many jobs recently lost at American factories may be gone for good

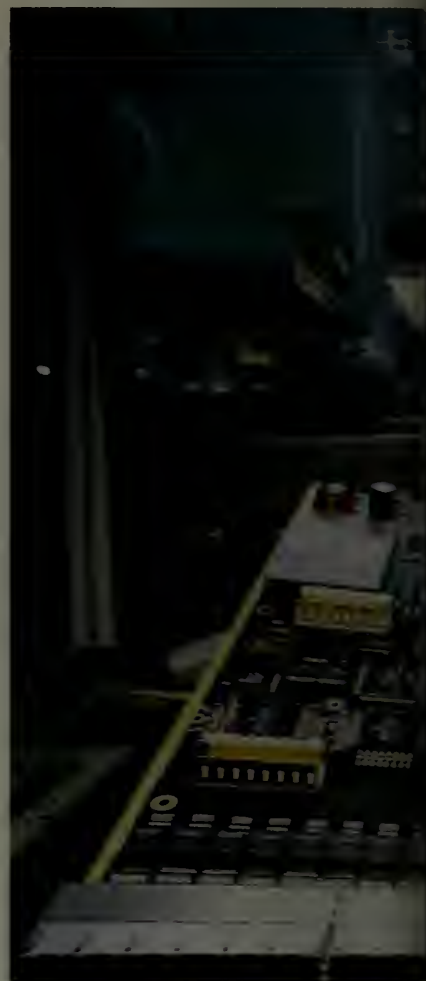
The recession of 2001 may have been exceptionally mild for the economy as a whole but it devastated U.S. manufacturing. The number of manufacturing jobs fell from 18.5 million in the middle of 2000 to 16.9 million today—a decline almost as steep as during the harsh downturn of 1981-82.

In the past, manufacturing employment typically rebounded after a recession ended. After the 1981-82 downturn, manufacturing got back about two-thirds of the jobs it had lost. In the 1990s, growth in U.S. high-tech manufacturing helped offset losses in industries such as steel and apparel. By 1998, manufacturing employment had risen to only 11% below its all-time high.

This time, however, the bounceback may not be so strong and the bulk of the manufacturing job losses may be permanent. The sharp decline in U.S. corporate profits, combined with the burden of a strong dollar, is forcing companies to take a fresh look at how they can cut costs. And in an increasingly global economy, they're deciding it's cheaper to use foreign factories than domestic ones.

The result: As U.S. demand rebounds, imports are rising far faster than domestic production. First-quarter imports of goods rose at a 10% annual rate, adjusted for inflation. South Korean factories are ramping up production, while electronics makers in Taiwan are restarting idle machines to turn out chips, phones, and flat-panel displays. Meanwhile, manufacturing output in the U.S. rose at a mere 3% annual rate in the first quarter. What's worse, factory employment shrank at a 6% annual rate, with no sign of a bottom (charts).

The failure to generate manufacturing jobs at home may already be muting the recovery. The worsening of the trade deficit subtracted 1.2 percentage points from economic growth in the



ASIA'S GAIN

A Soletron circuitboard factory in Malaysia is competitive not only in wages but in production savings.

first quarter, the Commerce Dept. says.

And the economic drag appears likely to continue, as manufacturers aggressively cut jobs even as demand picks up. The employment index of the Institute for Supply Management survey for January was 46.7, signaling further contraction of the factory workforce. In recent months, DuPont announced plans to cut a 1,400 U.S. textile manufacturing jobs, while Kraft Foods Inc. said it would close a Chicago plant that makes Soft Bake coating mix. Maytag Corp. transferred four assembly operations

...in Reynosa, Mexico, and to transfer 12 others by August. In San Francisco's Levi Strauss & Co., which once boasted of its American-made clothing, said it would close 15 factories and lay off 3,300 workers. That will leave it with just two U.S. plants. Most of its clothing comes from Mexico in Latin America and Asia. Cheap competition makes long-term plans hard to resist. In electronics factoring, for instance, the labor for assembling printed-circuit boards—the guts of electronics gear—is \$7 to \$8 an hour in the U.S., vs.

reel gear there than to ship all the little pieces across the Pacific for assembly in the U.S., says Jim Bacherman, chief marketing officer for Flextronics International Ltd., the Singapore-based contract manufacturer. Flextronics says it will now have 75% to 80% of its production in low-wage regions, vs. half in 2000. Once green, production rarely shifts back to high-cost regions. Says Bacherman, “It’s pretty hard under any market conditions to say, ‘For these reasons, I’m going to pay more.’”

Adding to their attractiveness, countries such as China, Mexico, Malaysia,

It’s not just in technology that jobs are shifting abroad. In North and South Carolina, the heart of the South’s once-luxury textile and apparel industry, many companies that had been struggling to survive have finally capitulated. Worse for them than the recession was the dollar’s strength, which triggered a flood of cheap imports. In the past two years, the dollar is up sharply against the currencies of apparel exporters such as Indonesia and South Korea.

Mainly because of the dollar’s impact on import prices, retail apparel prices have fallen 3% over the past year. “The strong dollar is just wiping manufacturing out,” says Cam Johnson, an associate vice-president at the American Textile Manufacturers Institute.

Makers of machinery and steel are also suffering from the dollar’s rise. The job losses aren’t even across industries. Pharmaceutical employment has increased 3% from a year ago despite the recession. Auto industry employment is benefiting from the construction of assembly plants in the U.S. by the likes of Toyota, Honda, and Mercedes. Netting out Big Three plant closings, productivity gains, and expansion by Japanese, Korean, and German auto makers, “auto employment will hold even” through 2010, predicts Sean McAlinden, economic director at the Center for Automotive Research in Ann Arbor, Mich.

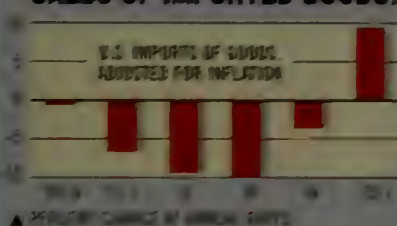
For employers, closing U.S. factories makes all the sense in the world. For employees, it can be a terrible shock. Take General Electric Co., a leading advocate of globalizing production. It uses Mexican factories to make everything from medical diagnostic gear to appliances. “They really don’t give any real consideration to the impact of their decisions on workers,” says Edward Fure, a vice-president of the Communications Workers of America. GE says it has generous retraining and separation programs and continues to have a vibrant U.S. production base.

The ability of U.S. manufacturing to generate jobs at home was one of the more pleasant surprises of the 1990s. The ability to keep them here may be one of the unpleasant surprises of this decade.

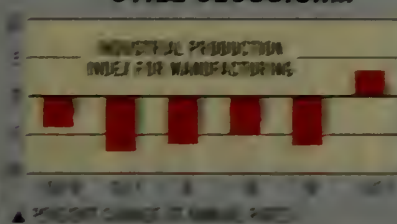
By Peter Coy in New York, with bureaus reports



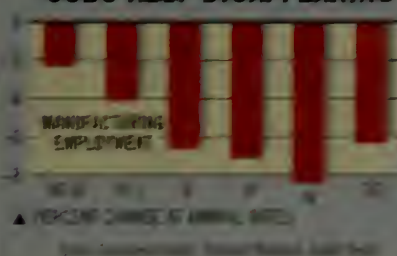
AS RECOVERY BOOSTS SALES OF IMPORTED GOODS...



...U.S. FACTORIES ARE STILL SLUGGISH...



...AND MANUFACTURING JOBS KEEP DISAPPEARING



...at a loss in China, estimates by A. Black, vice-president for manufacturing services at A Inc., a supply-chain consulting in El Segundo, Calif. The cost differential wasn't as cutting during the tech boom of the late 1990s when companies like Chen Solar and Lumex Technologies Inc. willing to pay extra for the cost of having production in the close to their engineers and customers. “Flexibility was more important than cost,” says Black. But tech cooled over, he says, and industries have now decided to “move to the lower-cost regions.” However, as much of electronics factoring has moved to Asia as that it’s cheaper and easier to

and South Korea are moving up the manufacturing learning curve, boosting their productivity faster than in the U.S. In the second half of the 1990s, U.S. manufacturing productivity rose at a solid 4.6% rate—but manufacturing productivity in South Korea, for example, improved nearly 12% a year.

While most manufacturing jobs are in production, the category also includes engineers, researchers, managers, and support staff of manufacturing companies. Some white-collar Americans are even moving to where the jobs are. To lure Westerners and U.S.-based Chinese to a new billion-dollar chip fab in Shanghai, China, Semiconductor Manufacturing International Corp. is building an elementary and middle school for their children.



TYSON PLANT: Did low-paid illegals help deflate all wages?

LABOR

HIRING ILLEGALS: THE RISKS GROW

A federal suit at Tyson opens the door to a class action

Talk to former Tyson Foods Inc. employee Doris Jewell, and she'll insist that the hiring of illegal Mexican workers at the Shelbyville (Tenn.) plant where she worked on the production line was no secret to top Tyson executives at headquarters in Springdale, Ark. "They knew what they were doing down there," she scoffs. Now she and three other ex-Shelbyville workers are suing the company for allegedly depressing the wages of legal workers at 15 plants through an "illegal-immigrant hiring scheme" that violated federal racketeering laws, as their complaint states.

The novel legal tactic put Tyson—and potentially other big employers—at the center of a new

kind of war against illegal immigration being waged by the federal government and creative plaintiff attorneys. For the first time, companies could face gargantuan fines, damage awards, and even jail sentences. That could force hiring patterns to change quickly. Jewell's class action is riding the coattails of a massive federal indictment of Tyson in December

alleging that the world's largest poultry producer conspired to smuggle workers into the U.S. The government says that thousands of Tyson's 120,000 workers, who start at about \$5 an hour, may be illegal.

Tyson vigorously denies a conspiracy to hire illegal workers and calls any violations of federal law "isolated incidents" carried out by a handful of mid- and lower-level managers, at least eight of whom have been fired. The company is fighting the civil and federal suits and has rejected the government's \$100 million settlement proposal, which dwarfs the previous record fine set in another case. "This company does not want to hire undocumented workers. That's not our objective,"

Tyson General Counsel Les R. Bale

Still, if the government's new strategy succeeds, it could transform the way the U.S. handles the chronic problem of illegal immigration. Ever since the 1986 immigration law made it illegal to knowingly hire undocumented workers, enforcement has been halfhearted, with sporadic workplace raids and employer fines. So illegal immigration activity swelled sharply in the 1990s, to as many as 7 million estimated today.

Now, the government is focusing on employers that work with recruiters and agencies that bring in illegals. If companies are hammered by fines and penalties, hiring practices will be altered, and many immigrants may find it difficult to get a job, even when employers need help. "It's a strategy designed to create more of an impact through revolving-door prosecutions of illegal employers," says John P. MacCoon, the assistant U.S. attorney in Chattanooga in charge of the Tyson case.

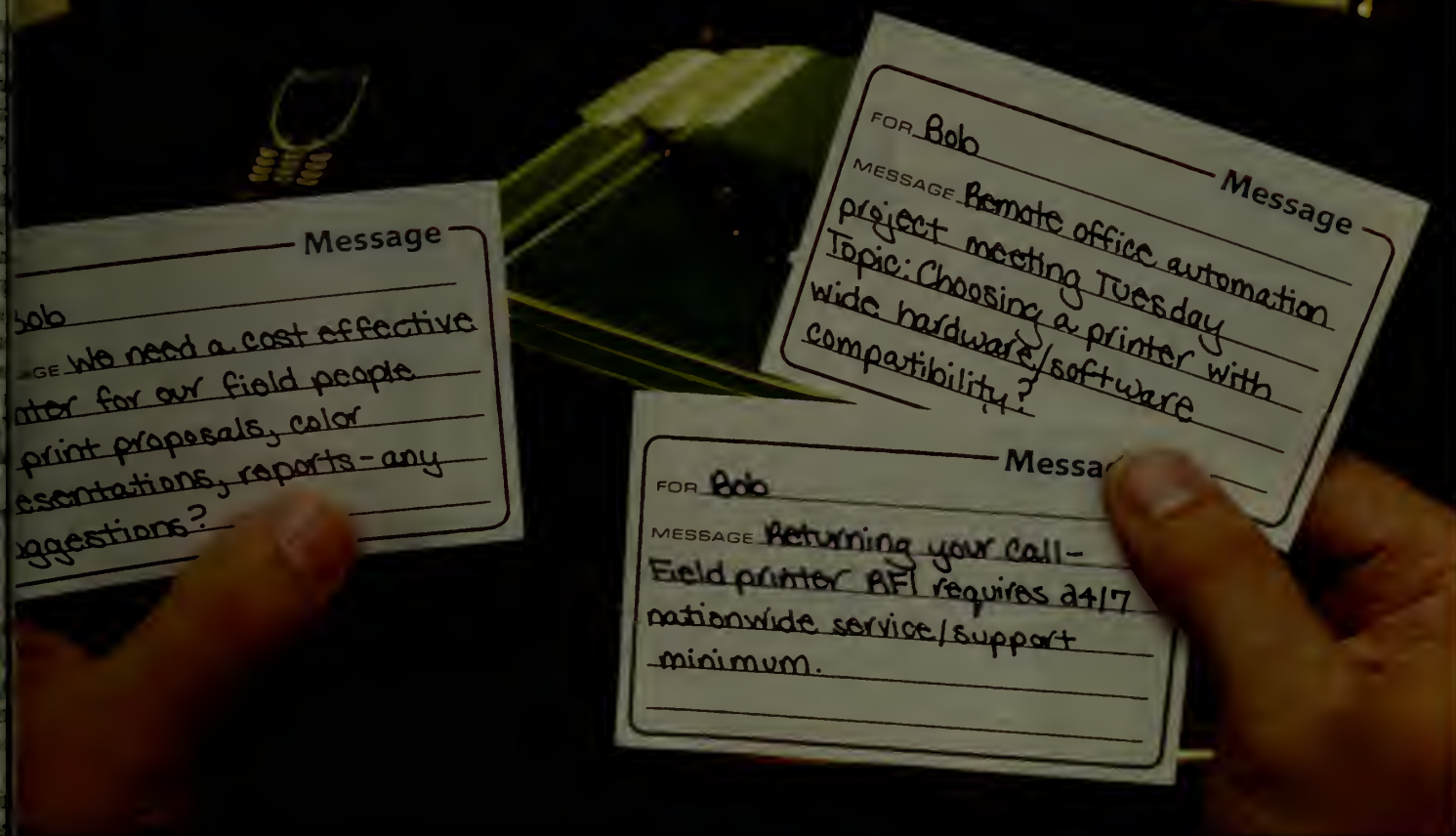
The feds' new approach relies on a hard fist of criminal law instead of softer civil sanctions typically used under the 1986 act. The first test came in 1998, when the Justice Dept. successfully prosecuted a Georgia apparel manufacturer, Atlantic Finishing, and its president working with a group that smuggled

TWO LEGAL FRONTS

THE FEDS After years of ineffective workplace raids and civil sanctions against employers that hire illegal immigrants, Washington is criminally charging companies that allegedly help smuggle in undocumented workers. The Justice Dept.'s December indictment of Tyson Foods is the largest example yet of this new enforcement priority.



PRIVATE SECTOR Plaintiff lawyers are brandishing federal racketeering laws—expanded in 1996 to encompass the hiring of illegal aliens—to sue Tyson and other companies in the meat, fruit-packing, and janitorial industries. They allege that hiring illegals unfairly drives down the wages of legal employees. The potential payoff: triple damages for legal workers.



Message
FOR Bob
MESSAGE We need a cost effective
printer for our field people
print proposals, color
presentations, reports - any
suggestions?

Message
FOR Bob
MESSAGE Remote office automation
project meeting Tuesday
Topic: Choosing a printer with
wide hardware/software
compatibility?

Message
FOR Bob
MESSAGE Returning your call -
Field printer AFI requires 24/7
nationwide service/support
minimum.

Taking cost out of your business, more important today than ever before.

That's why Brother's Commercial Division is committed to providing superior and reliable business printers that increase productivity while reducing costs. This enables businesses like yours to more

effectively address critical organizational goals and challenges.

But it is our product reliability coupled with a responsive nationwide support and service network that has companies like yours putting Brother laser printer solutions at the top of their requisition lists.

Brother's Commercial Division welcomes the opportunity to put our resources to work for you. Contact us today so we can show you how we can positively impact your bottom line while enhancing your performance

For more information, call 1-866-455-7713, ext. 905

At your side.

brother®



Color Laser Solutions



Multi-Function Solutions



Desktop Laser Solutions



Fax Solutions

© 2002 Brother International Corporation, Bridgewater, NJ • Brother International Corporation, Nagoya, Japan
For more information please call the Brother Fax-Back System at 800-521-2846 or visit our web site at www.brother.com

Mexican workers. The executive pled guilty and drew a 10-month prison term.

The Tyson suit ups the ante dramatically by focusing on an \$11 billion company with 125 plants nationwide and a widely recognized brand name. After a two-year investigation, the government charged Tyson officials with conspiring with a smuggler and temporary-service agencies to recruit illegal workers, mostly from Mexico. Tyson retorts that the only worker-smuggling done was by undercover government agents who had approached company officials.

Meanwhile, the feds' anti-smuggling efforts caught the attention of plaintiffs' lawyers, who have some new legal theories, too. Historically, workers and competitors affected by illegal hires had no standing to sue for damages because they couldn't take the government to court for its failure to enforce a law. But in 1996, Congress expanded the Racketeer-Influenced & Corrupt Organizations Act (RICO) to include knowingly hiring illegal workers. That, say the Tyson plaintiff lawyers, allows workers to sue for the triple damages allowed under RICO.

This is an untested theory. Chicago attorney Howard W. Foster, who represents the Tyson workers, still has to prove that an employer of illegals worked with an outside "enterprise" such as a recruiter. Since that's just what the government alleges Tyson did, he's piggybacking his case on Justice's. Foster also may be able to use the feds' \$100 million settlement demand to help determine workers' damages. The sum represents an estimate of the difference between what Tyson would have paid its workers if none had been illegal and what it actually did pay them.

Foster has lost a similar suit against an agricultural company but is making headway on another one. One client, Commercial Cleaning Services LLC, sued rival Colin Service Systems Inc. for using low-wage illegals to lower its costs and underbid competitors unfairly. A U.S. Appeals Court last November allowed the case to go forward. The decision is a major step for Foster's legal theory because it acknowledges that private parties can suffer damages from immigration law violations even when the government is enforcing the law.

Indeed, it's the prospect of large damages that troubles employer groups most. If companies that hire illegal workers face liabilities, that could become "a huge club that forces you into settlements even when you're not guilty" of smuggling, argues Randel K. Johnson, a labor expert at the U.S. Chamber of Commerce. If that happens, many more companies could find themselves in Tyson's uncomfortable shoes.

By Wendy Zellner in Dallas

The Workplace

PRODUCTIVITY

THE BIG SQUEEZE ON WORKERS

Is there a risk to wringing more from a smaller staff?

On his recent family vacation in Arizona, Peter Spina spent much of his time camped out under a palm tree while his kids splashed around in the Scottsdale Princess Hotel's luxurious pool. Spina wasn't lounging. He was working—hammering out deals on his cell phone in a mad dash to break new accounts at Vulcan Ventures Inc., where he's publisher of *The Sporting News*. Spina says the downturn has forced him to work even longer hours than he did during the boom—about 15% more. Ditto for his sales force. Whereas once he had lots of bonus money to throw around, he now tries to make up for the tough slog by bringing popsicles to the office on hot days. The added hustling is one reason his team has racked up revenue gains of 46% this year in an abysmal ad market. "They're working longer and harder," says Spina.

Much has been made of the recent upsurge in productivity. Although recessions usually bring slides in this efficiency measure, the fourth quarter's astounding 5% gain gave more credibility to the idea that technology has made the economy more productive than ever before. But tell that to white-collar workers, and you're likely to hear that the gains have come on their backs. Rather than bring relief, layoff survivors say, the downturn has only socked it to them more. They complain about managing the orphaned workloads of downsized colleagues, scouring new avenues for business, and fighting for high-profile posts so if the ax falls, it won't hit them. "What we're discovering is that in this early stage of recovery, not only are companies making people work harder, but, believe me, some people want to,"

says J.P. Morgan Chase & Co. economist James E. Glassman. "They're trying to protect their job security."

That gripping desperation is eating companies to use in their favor. Hewitt, director of client service at consulting firm Aquent, says he and his staff have been bending over backward to meet with clients who don't have work for them so the company can have a jump on future business and be ready to roll when the rebound kicks in.

But it's not just fear that's moving today's workplace. A number of other structural changes are also pushing bosses to extract maximum productivity from their ranks.

the increased use of temps, to the reclassification of hourly workers into salaried employees eligible for overtime pay, to the rise in variable pay that puts part of workers' paychecks at risk, companies are now able to get more out of less.

It's hard to say just how much productivity has risen, given the state of statistical record-keeping. The Bureau of Labor Statistics says overall weekly hours worked dropped in the recession—in part because manufacturers slashing hours. But economists say it's impossible to draw an accurate picture from the BLS data. They note that the data is flawed because it often builds in an assumption that all levels of employees work 35 hours a week—managers and hourly staff alike. To which many economists reply: Not so. Morgan Stanley Dean Witter chief economist Stephen Roach, for example, believes the BLS numbers underestimate the number of hours worked



CRACKING THE WHIP

This is the first recession since World War II in which productivity has risen, not fallen. Here's how companies are getting more out of workers:

Data: Bureau of Labor Statistics, Morgan Stanley Dean Witter & Co., *BusinessWeek*

LONGER HOURS

Nearly 20% of the workforce spends more hours a week at work than in the past, mostly professional and collar workers.



say CEOs are likely to be leery, especially with economic data so mixed. Many have bad memories of boom-time hiring binges in which they took on mediocre people just to fill slots and then wound up having to pay weeks of costly severance. Instead, economists say CEOs are likely to focus first on extracting even more from their existing ranks until demand reaches a breaking point. The big question now, asks Mary Hammershock, vice-president for human resources for Silicon Valley's Blue Martini Software, is "how much longer can you get people to do this when the upside has gone away?"

Certainly, if demand surges unexpectedly, companies could kick into hiring mode faster than expected—as soon as the

The growing use of the just-in-time workforce is not the only means by which companies are priming the productivity pump. Workers complain that many employers are taking advantage of outdated labor laws by misclassifying them as salaried-exempt so they can skirt overtime pay. Already, Wal-Mart Stores, Taco Bell, Starbucks, and U-Haul, among others, have been slapped with class actions. In the case of General Dynamics Corp., this resulted in a \$100 million award that is now on appeal. At Farmer's Insurance, employees got \$90 million. Some employers are so worried about the issue that they are now doing wage-and-hour audits.

Another potential productivity enhancer: incentive pay, which enables bosses to motivate people to work harder during tough times to make up for lost wages. General Electric Co. will soon start factoring customer performance into employee pay, putting an even greater chunk of compensation at risk. Under this system, if a customer's business suffers, so does the GE employee's paycheck.

Yet even as they push existing employees, companies also have to think about what's down the road—the likely return of tight labor markets and a replay of the 1990s' battle for talent. Demographers and labor experts note that the recession merely masked the deep skills shortages lurking within the labor force. "It will be even worse than it was in 2000," predicts Texas Instruments Inc. Chairman, CEO, and President Tom Engibous, who says the sequel could come as early as 2003.

Like many CEOs, Engibous faces the tough job of balancing the need to juice profits right now with the longer term goal of cultivating his choice employees. That's why he has launched a "re-recruiting initiative" at TI, asking workers what they need—days off, new assignments, a different boss—to keep them satisfied right now. He figures if he waits until the rebound is in full bloom, it could be too late. For companies that squeeze too hard, it probably already is.

By Michelle Conlin in New York

“How much longer can you get people to

do this when the upside has gone away?” — MARY HAMMERSHOCK,

Blue Martini Software

third quarter. But with the earnings picture still weak and corporate uncertainty strong, employers won't engage in aggressive permanent hiring until they see the whites of the recovery's eyes. Already, companies are looking first to bring in contract workers that they can quickly tap and zap without paying any benefits or severance. In fact, the temps have been the fastest growing sector of employment this year. And they aren't accounted for as regular employees. This helps companies that use a lot of them, like Cisco Systems Inc., to drive up revenue per employee.

fore overstating productivity. ill, whatever the numbers there's no doubt that right employees feel they have little choice but to accept the grueling loads. Despite some evidence of a rebound, the job market in y quarters is still weak. In April, specter of layoffs revived when eral Electric Capital Services Inc. unced cuts of 7,000 jobs and Lu- Technologies Inc. eliminated an adn- al 6,000 positions. Job cuts are no er a last resort in hard times but ngoing tool for matching supply demand.

is is one reason some economists ict a replay, at least initially, of the y-1990s jobless recovery. Rather scoop up more permanent hires e first whiff of demand, economists

YING WORKERS TRIAL

ons charging that s are misclassifying overtime pay are e.

LOADING UP ON TEMPS

The ranks of contingent workers grew 56% during the boom—a just-in-time workforce with no benefits or severance.

MAKING LESS DO MORE

Companies are paring down staff without reducing workloads. They are also making employees work harder to drum up new business.

SHIFTING RISK

Pay is increasingly tied to company performance, which saves money when profits evaporate while spurring harder work.

HAS COKE BEEN PLAYING ACCOUNTING GAMES?

Regulators are looking askance at the soft-drink giant's ties to its bottlers

Coca-Cola Co. is one of those companies investors want to believe in. Since 1998, the longtime Wall Street darling has disappointed: Sales of its iconic product stalled, cutting its profits and share price. But investors have been betting on a comeback since January. So on Apr. 16, when the beverage company said bottlers' sales volumes had jumped a surprising 5% and Coke's own earnings—excluding nonrecurring items—had apparently beaten expectations, that's all investors needed. They have bid the stock up nearly 10% since then, vs. a 1.5% drop for the Standard & Poor's 500-stock index. All told, Coke shares are up 22% this year, compared with a 22.5% fall in 2001. Coke Chairman Douglas N. Daft couldn't resist a boast at the company's annual meeting the next day: "Our financial results speak for themselves."

Or do they? It may be reasonable to gloss over Coke's \$125 million first-quarter loss due to accounting-rule changes. Or ignore that Coke now stresses "currency-neutral" earnings, factoring out the negative impact of the strong dollar on foreign earnings. (Funny, it never did that a decade ago, when the weak dollar fueled as much as a quarter of its 18% earnings growth.) Still, at a time when U.S. companies face intense scrutiny over the quality of their earnings, Coke's figures—and its comeback—deserve a closer look.

That means investors must increasingly figure in the financial performance of its global network of bottlers, whose fates are intertwined with Coke—even if their balance sheets aren't. The fact is, Coke made its numbers in the 1990s in part by exploiting its bottlers. Now, the company is starting to acknowledge that it's going to have to help them repair the damage to their balance sheets that resulted. And that will likely cut into earnings

growth going forward, analysts say.

Coke's finances have long been among the most complicated in Corporate America, because of the company's Byzantine relationship with its 38%-owned affiliate, Coca-Cola Enterprises Inc., the huge bottling company it spun off in 1986, and other members of its global bottling network. Coke doesn't consolidate CCE because it owns less than 50%. And it insists it doesn't control the company. But the bottlers are essentially captive customers for Coke's highly profitable syrup.

For years, under Daft's predecessor, M. Douglas Ivester, Coke pushed bot-

when it ever will," notes Carlos T. An, an analyst with Bear, Stearns & Co.

As a result, while Coke enjoys a return on assets of around 18%, CCE's (table) is one-sixth that. Analysts expect CCE in 2002 to earn a mere \$1 million on revenues of \$16.5 billion, nearly double its profits in 2001, that still only gives it a return on capital that is roughly half its cost of capital.

What's more, CCE's pretax income in 2002 is expected to include more than \$950 million in so-called "marketing support" payments—actually a long-running subsidy—from parent Coke, which seemed willing to wind down the

THINGS GO BETTER WITH COMPLEX NUMBERS

How Coca-Cola uses its 38%-owned bottling company, CCE, to improve its financials

- Coke appears to control CCE but doesn't consolidate it, so the capital-intensive bottler's debt stays off its balance sheet
- Coke sells high-margin cola concentrate, while bottlers sell the less profitable drink
- Coke has booked hundreds of millions in annual profits from CCE as assets, not expenses, spreading the profit hit over many years
- After Coke pushed bottlers to overexpand, Coke's assets stayed strong while the bottlers' collapsed (see table)

RETURN ON ASSETS	1997	1998	1999	2000	2001
COKE	21.5%	18.3%	14.7%	17.2%	17.5%
BOTTLERS	2.8	2.2	1.0	1.0	1.9
COMBINED	8.8	7.7	5.9	6.3	7.5

Data: Lehman Brothers Inc., BusinessWeek

tlers to add production capacity and acquire other bottlers, sometimes bought from Coke at grossly inflated prices. During the 1990s, Coke banked hundreds of millions in profits from buying and reselling assets to its bottlers. The added capacity allowed Coke to boost sales volumes while keeping debt from the capital-intensive, low-margin bottling business off its books. But that strategy saddled bottlers with the debt and razor-thin returns. "CCE still doesn't cover its cost of capital and can't say

ments after taking over in 2000, but had to reverse course and promise to maintain them through 2009. Daft has feared, among other things, that such a move would spur credit-rating agencies to downgrade CCE, raising borrowing costs further. "It's clear without support from Coca-Cola, CCE would be in deep trouble," says Michael Mastbaum, chief financial officer of American Securities in New York.

To Daft's credit, Coke seems to be playing it straighter than it used to

If Coca-Cola were to assume its share of the bottlers' debt



When Coke booked a small gain—less than 1¢ a share—from the sale of its stake in a Brazilian bottler to Molson Inc., Daft didn't try to include the gain as operating profits, as former Chairmen Robert Goizueta and Ivester sometimes did.

In general, bottlers claim that Daft has taken a more enlightened view of the relationship. Daft's vision, they say, seems to be that Coke's interests are ultimately aligned with those of its bottlers. And by keeping them healthy, he can increase business for all. In one welcome move, he slashed annual syrup-price hikes back below 2%, compared with the 7.6% jump that Ivester rammed through in 1999. Daft has also worked with bottlers to help them cut costs and boost productivity by sharing their manufacturing capacity with other Coke bottlers. He is even giving them more freedom to sell some outside brands in which Coke may not get a cut of the profit. "I think [the relationship] has changed dramatically since Doug Daft took the helm," says Lowry F. Kline, chief executive of CCE.

In any case, odds are that regulators would have shaken up that relationship. The Securities & Exchange Commission has begun to look askance at the way Coke and

that it had prematurely booked \$300 million in income back to 1994. The irony, though, is that as a result of the same SEC order, the bottler can now re-book those payments as earnings between now and 2008 as it places the vending machines in the field. The result: an accounting boost to CCE's net earnings on the order of \$70 million to \$80 million a year over that period. That, says John Faucher, an analyst with J.P. Morgan Securities Inc., "gives us some pause as to the quality of CCE's reported earnings."

Regulators may not have the last word on the ties between Coke and CCE. Indeed, as soon as next year, the Financial Accounting Standards Board is expected to dive back into a controversial project that could require companies to consolidate their financial statements with those of any other affiliates over which they exert control. If FASB prevails, some analysts think Coke will eventually have to combine its balance sheet with CCE's. "I think they should be consolidated," says J. Edward Ketzel, an associate professor of accounting at Pennsylvania State University who has studied Coke's ties with CCE. "Coke has de facto control over CCE."

If Coca-Cola were obliged to do that today, it's not clear what the impact would be. Some analysts say that if Coke had to consolidate CCE's financials, it might only clip Coke's earnings by about 4%. Still, once it assumed its share of CCE's low-yielding assets, Coke's return on invested capital would be slashed by half, to around 15%—a development that, some analysts believe, could cause Coke's stock to tumble. But these same analysts say that all depends on the aggressiveness of the FASB proposal.

Coke Chief Financial Officer Gary P. Fayard says the company did an internal study of an earlier FASB proposal and "our conclusion was that we did not have to consolidate any of those bottlers under those proposed rules. That's going to disappoint a lot of people," he adds. Still, in the post-Enron Corp. world, regulators and investors are becoming a lot more finicky about accounting maneuvers that few people cared about in the '90s. The reality: Coke and CCE are joined at the hip. They both need to sell that cola. For Coke to recapture its earnings fizz, it will have to embrace the bottlers as partners—not just pump them dry, as it has in the past.

By Dean Foust in Atlanta, with David Henry in New York

THE FIZZY AND THE FLAT



CCE account for the myriad payments between them. In January, CCE disclosed that the SEC had advised it to change how it was booking special payments that Coke makes to help bottlers pay for new vending machines and coolers. The SEC told CCE it should only book those payments as income when the equipment is put into service—not, as had been the case, when the check from Coke arrived.

That forced CCE to alert investors

, its return on invested capital could plummet

COMMENTARY

By Joseph Weber

WHY ANDERSEN IS MAKING A LAST STAND

It sure looks like chaos at Arthur Andersen LLP. Almost daily, it seems, more clients jettison the accounting firm and more people sue over flawed audits. The firm's value is shrinking fast as its lawyers haggle with claimants. It has let 7,000 employees go. Yet each morning, Andersen accountants and remaining staffers faithfully show up for work.

Why doesn't Andersen just declare bankruptcy? Insiders acknowledge there's no future for the business, even as the audit-only shop former Federal Reserve Chairman Paul A. Volcker proposed. It's not as if Andersen partners would go on the dole: Competitors such as KPMG, Deloitte Touche Tohmatsu, and PricewaterhouseCoopers are angling for pieces of its business.

Basically, the partners are trying to wind up the firm on their own terms. That means resisting bankruptcy—even though it would impose order on the breakup. Their reasoning: Putting the firm's fate in the hands of a bankruptcy court would make public the details of the firm's finances, and eliminate the chance of negotiating a better deal with claimants or buyers. "The reason we are seeing a deal a day is there's an attempt by our management to get some value," says Joseph Bernardino, Andersen's former CEO. Also, declaring bankruptcy wouldn't assure partners of what they most want: to be

free of the threat of endless litigation.

The trouble is, Andersen is in a legal straitjacket (table). The firm faces civil suits from investors and others who lost billions on Enron Corp. and the Baptist Foundation of Arizona. On May 6, Andersen goes to trial on federal obstruction of justice charges over Enron. The Securities & Exchange Commission may fine Andersen up to \$500 million and the board of Sunbeam Corp., another bankrupt audit client, is mulling a suit.

The liabilities are blocking most of the exits. Andersen's retired partners, suing

over \$800 million in benefits, have asked a court to stop partners from voiding noncompete pacts—which they must do to take clients with them when they go to competing shops. Fear of inheriting liabilities is also stalling buyers. "No deals can be inked until the liability is capped," says Allan D. Koltin, CEO of the Practice Development Institute Inc., a Chicago consultancy.

The biggest question is to what extent partners are personally responsible for Andersen's failures. If Andersen doesn't yield much money, plaintiffs' attorneys may sue partners on the Enron or Baptist Foundation audits as well as top firm executives. Even if that's unsuccessful, these partners may face years of appeals.

In theory, Andersen partners should get significant protection from the firm's status as a limited-liability partnership, which is supposed to confine partners' shares of a firm's liabilities to the capital they put in. But the Illinois LLP law, under which Andersen is chartered, has never been tested in a case of this magnitude. When the firm breaks up, "the partners will be thrown out of an airplane, and they will hope the LLP is an effective parachute," says Harvard law professor Elizabeth Warren.

The Andersen strategy carries other risks—not least that time is again. Acquirers can now get Andersen's skilled partners and their Rolodexes for far less than the 1.5 times annual client fees their noncompete agreements say they must pay to go to take clients to competitors. If all 1,620 U.S. partners paid that—never a likely scenario—the U.S. business would have yielded \$6 billion, more than enough to pay off claimants. Instead, says Lela E. Gaul, public companies practice director at accounting firm BDO Seidman LLP, the average asking price per partner is now closer to \$100,000 to \$150,000—yielding \$240 million at most. BDO is a possible buyer.

Andersen's last stand may be brave, but the odds are it will surrender—bankruptcy court.

Weber covers Andersen from Chicago.



NOWHERE TO RUN

Andersen faces mounting claims. Here are the major cases:

ENRON INVESTORS Mediation under the supervision of a federal judge in Houston collapsed May 1, killing chances of settlement for \$300 million.

BAPTIST FOUNDATION Trial under way in Phoenix after Andersen reneged on a settlement for \$217 million. If the firm is found liable for its audit client's failings, punitive damages could boost its ultimate payout sharply.

ANDERSEN RETIREES The firm's retired partners have sued in federal court in Chicago for \$800 million to protect their retirement benefits.

STATE OF CONNECTICUT The state is suing for \$220 million for losses on a deal with an Enron power marketing unit.

Data: BusinessWeek





Crystal Decisions, Crystal Reports, Crystal Enterprise, Crystal Analysis, and other registered trademarks or trademarks of Crystal Decisions, Inc. All other trademarks referenced are the property of their respective owners.

WHAT KIND OF DECISIONS DOES SAP MAKE? SMART ONES.

...ing at a smart business
...sion can happen anywhere.
...the process first requires
...rmation; information that
...s to be gathered from
...iple sources, then analyzed
...shared before it can be

used to your advantage.
SAP, the world leader in e-busi-
ness platforms, is focussed on
finding new ways to help their
customers lower costs and
increase revenues.

That's why SAP chose
Crystal Decisions'™ web reporting
technology and expertise – to
help their customers better
utilize information through
formatted reporting for
competitive advantage.

Crystal Decisions, makers of
Crystal Reports®, met SAP's demand-
ing standards. We're confident we
can meet yours. To see how, call
us at 1-866-821-3525 or sign up
for a seminar at:
www.crystaldecisions.com/ent/005/

CONCEPT CAR
The 9-3X may evolve into an SUV/sportster



STRATEGIES

CAN STOLID OLD SAAB BECOME SEXY NEW SAAB?

GM orders up new cars and a new image to take on BMW

One of the great mysteries of the luxury-car boom of the past decade has been, what happened to Saab? With its funky Scandinavian design and reputation for dependability, the Swedish brand seemed tailor-made for affluent baby boomers looking for something just a tad different from the BMWs, Volvos, or Audis their neighbors drove. For some folks nothing else will do. "Saabs look different from anything else," says Sebastian Grasso, 35, of Manchester, N.H. He has owned four of them since 1994 and persuaded his mom to buy a convertible. Yet Saab has languished in its quirky niche with such loyalists while other luxury brands dominated the market with new sedans, sports cars, and sport-utility vehicles.

Now General Motors Corp., Saab's owner, is out to change that. It is investing in some desperately needed new models, including a sedan version of its entry-level car, the 9-3, and another new 9-3 that resembles a station wagon. And Saab recently kicked off an advertising campaign that will try to give the brand a facelift, convincing buyers that Saabs are turbocharged driving machines capable of going mano a mano with BMWs and Audis. Saab execs insist that their cars have always been performance-ori-

ented. "But people don't know what we are," laments Marketing Vice-President Hans Krondahl.

GM is only now beginning to act on the vision it had in 1990 when it paid \$660 million for 50% of the Swedish auto maker. The idea back then was that GM, with its abundant resources, could expand the Saab lineup beyond two models and establish it as a snooty European luxury model to complement GM's Cadillac luxury icon. But those plans fell by the wayside when GM's finances soured in the early '90s. Once things stabilized, GM focused on its more-profitable trucks and sport-utility vehicles. So while rivals rode the luxury-car boom (chart), GM's Swedish stepchild stumbled along. With its losses, purchase price, and other costs, Saab cost GM \$2.5 billion before the auto giant finally bought the rest of it in 2000 for a measly \$50 million.

Now, GM says it's finally ready to get serious. This fall, it introduces a redesigned sedan model of the Saab 9-3 hatchback. In 2004 comes a new Saab

based on the 9-3X concept car that will be a mix of sports car and SUV. With two rows of seats, the unnamed and unpriced vehicle will have all-wheel drive, nimbler handling, a reconfigurable interior. It's not a station wagon—those words are verboten in Detroit these days—but it is close to being one. And Saab does hope to sell to the same folks who now buy Volvos and Audi wagons. GM also wants to bring out a traditional SUV and perhaps a sports car.

Meanwhile, the parent company is shifting Saab's marketing to sell it as a European performance vehicle. Its current pitch has been safety and weather driving capabilities—one reason U.S. sales are concentrated in the cold Northeast. The hope is that in years Saab's new models and refreshed image will double the 35,000 it now sells in the U.S. Already, since the ads began in January, sales have risen 20%, year-to-year—better than Cadillac, Mercedes, or BMW.

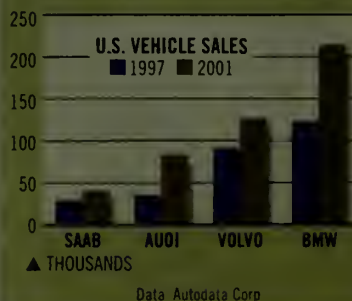
Getting rid of the hatchback should help. When it reissued the flagship 9-5 sedan without a hatchback as the 9-5 sedan in 1998, sales tripled the next year to 17,000 cars. In fact, GM says that

in terms of profitability, Saab is almost at break-even point. If it can replicate the 9-5's success with new vehicles, Saab will make a significant contribution to the overall comeback, CEO G. Richard Wainwright Jr. "Saab and Cadillac are our primary bets in the premium segment."

But is Saab really



SAAB: MISSING OUT ON THE LUXURY BOOM



TECHNICALLY SPEAKING, THE BEST NEWS SOURCE IN THE WORLD.



the No. 1 best source for technology news, according to Barron's.

For business leaders and investors who recognize the value of up-to-the-second coverage of technology, there is no more informative place to turn. CNET News.com. It's where the people you read about in technology read about technology.



NEWS.COM
TECH NEWS FIRST

The Corporation

strong enough brand to support an ambitious plan? Saab rang up worldwide sales of only \$4.5 billion last year and production topped out at 130,000 cars. Also, one of Saab's big strengths is the same offbeat idea that has kept it small. Of course the same could once have been said of other European luxury brands. Back in the '70s, BMW had little product in the U.S.—mainly its tiny 2002 coupe. BMW nearly doubled U.S. sales over the past five years, to 213,000 cars, by expanding its lineup with offerings such as the X5 sport-ute.

It's also unclear whether GM is ready to make the same commitment to Saab. Consider, for instance, the wrestling match between Detroit and Trollhättan, Sweden, Saab's home office, over its first attempt to build a Saab SUV. To maximize efficiency, GM wanted to build the vehicle around parts from its Ford Focus and Buick Rendezvous. But Saab engineers complained that the result would look boxy-looking, underpowered and wouldn't look and drive nothing like a Saab. They wanted at least 40 changes. When GM execs saw what that would do to the price, they nixed the project.

GM then came up with a plan for a five- to seven-passenger vehicle with the same hardware as Cadillac's crossover SUV, the SRX, which goes on sale later this year. The styling on the Saab vehicle is done, and the engineering is nearly so. But Chief Financial Officer John M. Devine put it on hold, deciding that even a successful launch would have too small a volume to justify building it at the Cadillac plant in Lansing, Mich. GM says it still plans to go forward with the design, probably building it elsewhere. But James Hall, vice-president of consultant Pacific Group Inc., says the vehicle likely miss its original 2004 launch.

True, GM has allocated an estimated \$450 million annually to build Saabs, including the revamped sedan, which comes out this fall in a price range of \$28,000 to \$44,000. But some analysts think that's still not enough to make up lost ground. "GM gives them the investment dollars to grow, Saab will be limited," warns Robert Brown of Nextrend Inc., a consulting firm in Thousand Oaks, Calif.

Saab's new ads stress turbocharged engines and nimble handling—a package that should play well with those who might otherwise choose Audi or BMW. But until Saab puts new models on the showroom floor, it is likely to wait for flashier rivals speed on ahead.

By David Welch in Detroit

Welcome BACK

THE ALEUTIAN *Canada* goose, one of more than a dozen subspecies of Canada geese, is back from a brush with extinction. In the 1960s, there were only a few hundred of these graceful migratory birds left. Today they number more than 30,000, thanks in large part to conservation efforts by Ducks Unlimited and others. That's a job well done, but more work remains. Hundreds of other wildlife species are in decline, victims of habitat loss, pollution, and competition with introduced species. They need your help.



Call 800-45-DUCKS or visit DU's Web site at www.ducks.org.



GIVE THEM
SHELTER FROM
THE STORM.

1.800.CALL 45-DUCKS
www.worldwildlife.org

Man's abuse of Earth's natural resources has created a storm that many animals and their habitats have difficulty weathering. Help World Wildlife Fund protect them by ordering a free Action Kit. Together we can help leave our children a living planet.



Congratulations to the winners of the Seventeenth Annual BusinessWeek Awards for Excellence in Corporate Advertising

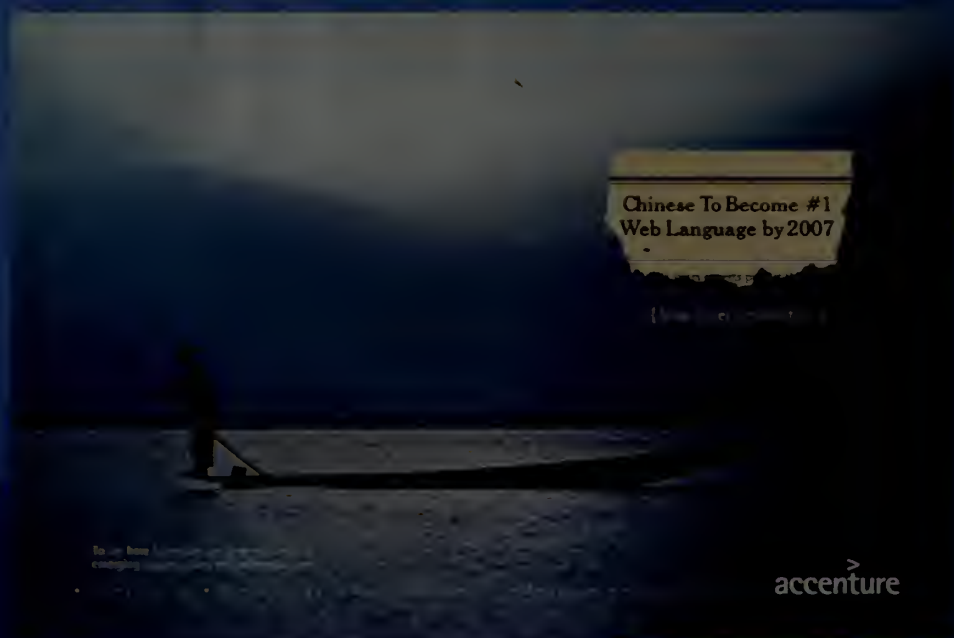
BusinessWeek readers have recognized thirteen distinguished advertisers for creating the best-remembered corporate campaigns of 2001.

The winners were determined based on 2001 advertising readership scores compiled for BusinessWeek by Roper Starch, an independent research firm and the acknowledged readership measurement standard for the print industry.

BusinessWeek is proud to recognize these companies for excellence in corporate advertising and award them with a symbol of excellence, the Steuben crystal eagle.

Representative ads of the winning campaigns are shown on the following pages.





Accenture

Joe W. Forehand | Chairman and CEO

YOUNG & RUBICAM | NEW YORK, NY

Technology.
Covered by Allianz Group.

Wherever you are. Whatever you do. The Allianz Group is always on your side.

Allianz. The Power On Your Side.

Allianz 

Allianz AG

Dr. Henning Schulte-Noelle | CEO

BBDO DÜSSELDORF GmbH | DÜSSELDORF, GERMANY

We develop innovative pharmaceuticals for diabetes management.

So that people with diabetes can focus on life.



Aventis

Aventis SA

Jürgen Dormann | Chairman of the Board of Management
RED CELL | DÜSSELDORF, GERMANY



MAN
MAKES
WORD
AROUND

**WE MAKE THE MONEY
GO AROUND.**

COMPAQ



WILL PEOPLE
TO MAKE
MOST OF
OUR MONEY
TECHNOLOGY
INVESTMENT?

THAT WOULD BE US.

COMPAQ

Compaq Computer Corporation

Michael Capellas | CEO
FOOTE, CONE & BELDING | NEW YORK, NY

WE DON'T HAVE TO CLAIM THAT
OUR SOFTWARE RUNS 99% OF THE
FORTUNE 500. IT ACTUALLY DOES.

It's one thing to make claims. It's another to follow through. And that's exactly what we do. We're not a fly-by-night start-up, or a company that works on a very small scale. We're the world leader in infrastructure management software, and we've been doing it for 25 years. But we didn't stop there. We're also the global leader in offshore security and storage software. So if you're looking for a software company that means what they say, look no further.



COMPUTER ASSOCIATES

WE DIDN'T JUST JUMP ON THE
INFRASTRUCTURE BANDWAGON.
WE BUILT IT.

It's time to get the record straight. Long before our competitors even called this area "infrastructure" to their shareholders, we were busy creating it. So now we feel somewhat uncomfortable if you believe that we have played a significant role in managing offshore infrastructure. But we didn't stop there. We're also the world leader in security and storage software. Every day, our software handles over 100 million transactions, protects 500 billion in data transfer and stores 40 million security auditors. Experience doesn't happen overnight. It's taken 25 years of hard work and leadership to get to be the best. So when we say you can trust every word our 17,000 employees around the world to deliver the software and services that your offshore business depends on, we really mean it.



COMPUTER ASSOCIATES

Computer Associates International, Inc.

Sanjay Kumar | President and CEO

YOUNG & RUBICAM | NEW YORK, NY

Most projects don't come with a chance.

To transform an industry. But this time

worked on an Internet-based system

that gives thousands of people instant

access to college financial aid over the

Web. Now the number and rates of

paperwork formerly associated with

financial aid are things of the past. And

the lives of students, parents and

school administrators have become a

whole lot easier.

I DIDN'T JUST HELP CHANGE THIS BUSINESS.

I STARTED A REVOLUTION.

CRM SOLUTIONS

Few in the world are more successful for students than applying for financial aid. So when busy teaching banks recently surprised the process with a Web-based customer relationship management system developed with CRM Consulting, a Fujitsu company, the benefits are clear. Students can respond to offers from schools as soon as they receive them. Financial aid counselors have more time for one-on-one consultations, and the bank's business relationships are given a boost. To see how we can help your business go to the next level, visit www.crmconsulting.com. When you team up with a leading worldwide provider of CRM solutions, you can accomplish anything.

FUJITSU

THE POSSIBILITIES ARE INFINITE

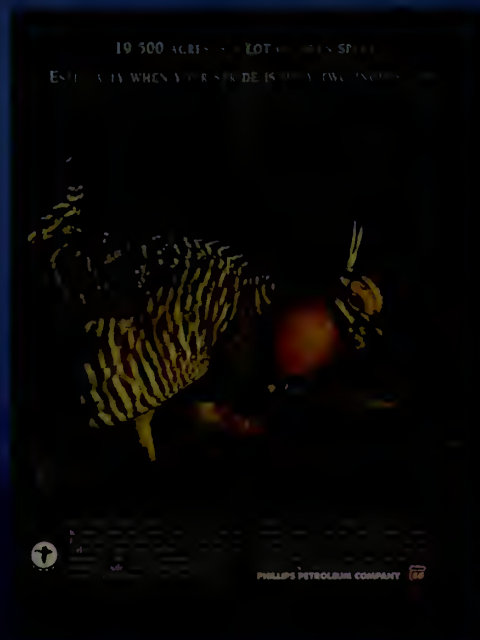
www.fujitsu.com

Fujitsu Limited

Naoyuki Akikusa | President

ASIAN ADVERTISERS | TOKYO, JAPAN

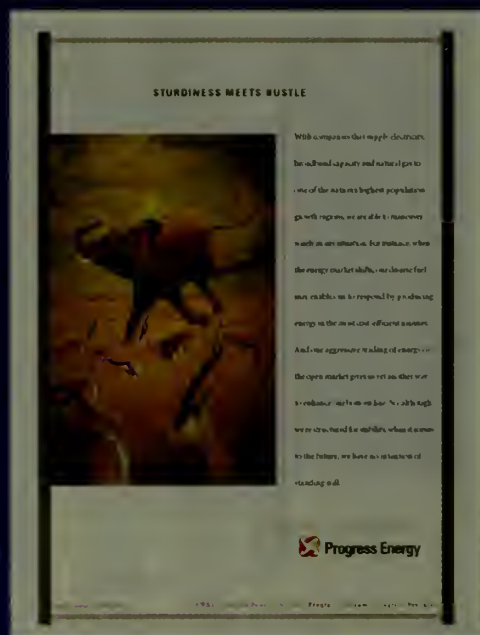
BOZELL | NEW YORK, NY



Phillips Petroleum Company

James J. Mulva | CEO

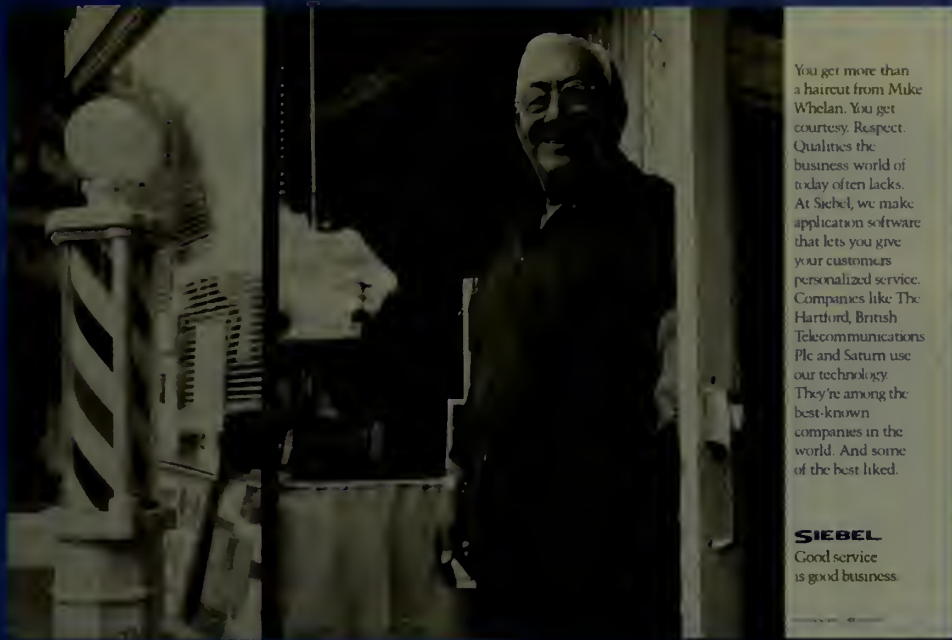
DDB-DALLAS | DALLAS, TX



Progress Energy, Inc.

William Cavanaugh, III | Chairman, President and Chief Executive Officer

BBDO ATLANTA | ATLANTA, GA



You get more than a haircut from Mike Whelan. You get courtesy. Respect. Qualities the business world of today often lacks. At Siebel, we make application software that lets you give your customers personalized service. Companies like The Hartford, British Telecommunications Plc and Saturn use our technology. They're among the best-known companies in the world. And some of the best liked.

SIEBEL
Good service
is good business.

Siebel Systems, Inc.

Thomas M. Siebel | Chairman and CEO

PUBLICIS & HAL RINEY | SAN FRANCISCO, CA



One inspired person
can make a difference
460,000 can change
the world

SIEMENS
Global network of innovation

Siemens Corporation

Klaus Kleinfeld | President and CEO

PUBLICIS-USA | NEW YORK, NY



Toyota Motor North America, Inc.

Toshiaki (Tag) Taguchi | President and CEO

OASIS ADVERTISING | NEW YORK, NY

Past Winners

of the BusinessWeek Awards for Excellence in Corporate Advertising

2000

Accenture
Agilent Technologies, Inc.
Allianz AG
Alstom
Aventis SA
CIT
Deloitte & Touche
Deutsche Bank AG
Fujitsu Limited
Lucent Technologies
Siemens Corporation
The Timken Company
Williams

1999

Agilent Technologies, Inc.
Andersen Consulting
Compaq Computer Corporation
Compuware Corporation
Fujitsu Ltd.
Lucent Technologies
Phillips Petroleum Company
Quantum Corporation
Shell International
Siemens Corporation
Sun Microsystems
The Timken Company
Toyota Motor North America, Inc.
Williams

1998

Andersen Consulting
BP Amoco Chemicals
Compuware Corporation
Fairchild Aerospace
Fujitsu Ltd.
IBM
Lucent Technologies
Network Associates, Inc.
Siemens Corporation
The Timken Company
Toyota Motor North America, Inc.
Williams

1997

Amoco Chemicals
Andersen Consulting
Digital Equipment
Fujitsu Ltd.
Hoechst AG
Lucent Technologies
Merrill Lynch & Co.
Microsoft Corporation
Siemens Corporation
Sun Microsystems, Inc.
3M
The Timken Company
Toyota Motor North America, Inc.

BusinessWeek

www.businessweek.com

Published by McGraw Hill

COMMENTARY

By Lorraine Woellert

THE BILL IS GONE... AND SO IS THE BUZZ

Political cartoonists and right-wing-conspiracy theorists aren't the only ones who miss Bill Clinton. Moderate New Democrats have been in a swoon since their leader left town. In Clinton's heyday, New Democrat think tanks churned out ideas that moved the party toward the political center through an artful fusion of conservative economics and liberal social policy. But short on leadership and new ideas, New Democrats are struggling for relevance in George W. Bush's Washington.

With liberal leaders pressing centrists to oppose Bush on trade liberalization and tax cuts, corporate benefactors of the supposedly pro-business movement are questioning New Dems' loyalty. The big blow came on Dec. 6, when a majority of centrist Democrats in the House refused to give Bush the fast-track trade-negotiating authority that Corporate America believes will open new markets.

Most New Dems say they voted against fast track because it didn't include enough protections for U.S. workers and the environment. They blame Republicans for designing a bill that could hurt Democrats—not add to a consensus. “The Republicans are trying to marginalize us,” says Representative Adam Smith (D-Wash.), a self-proclaimed free-trade moderate. “They could much rather run against the liberal Democrat leadership.”

Business reaction was fast and furious. A day after the vote, Microsoft Corp. pulled out of a Seattle fundraiser hosted by Smith. “New Democrats really need to do some serious soul-searching,” says Tim Go, executive director of the tech lobby by CapNet. Apparently they already are. Smith predicts a better showing when the Senate sends a more worker-friendly version

of the trade bill later this spring. “A number of us who didn't support it then are very anxious to support it when it comes back,” Smith says.

Moderate Dems remain caught in a political squeeze play, however. House Minority Leader Dick Gephardt (D-Mo.), Senate Majority Leader Tom Daschle (D-S.D.), and a reenergized “Fighting Al” Gore are nudging the party to the left.



STAR POWER: Clinton gave the movement its moment

WHAT'S AILING THE NEW DEMOCRATS

LEADERSHIP VACUUM Without Clinton in the White House, the movement has lost its chief spokesman, lobbyist, and fund-raiser

PUSH TO THE LEFT Liberal congressional leaders have pressured New Dems to toe the party line on issues such as free trade and tax cuts

TECH MELTDOWN Although funding remains strong, the collapse of the tech sector has hurt New Dem pols and think tanks

OLD SCRIPT New Dem “new ideas” have been implemented by Clinton, appropriated by Bush, or just gone stale

Data by BusinessWeek

“There's danger that the party will backslide to interest-group politics,” says Will Marshall, president of the Progressive Policy Institute, a centrist Democrat think tank.

It's also getting downright crowded in the middle. Intent on building a “New Republican” coalition, Bush is appropriating signature New Dem issues such as education and national service. That makes it easier for moderate GOPers to cut into New

Dem funding sources. Claiming to be more reliably pro-business, the fledgling Republican Main Street Partnership is collecting checks from Citigroup, Microsoft, Novell, and others.

In fairness to the New Dems, a certain loss of energy was inevitable after a long run in which many of their ideas, such as work-based welfare reform, became law. And proposals that were novel a decade ago,

such as means testing for entitlements, today are widely embraced by members of both parties. To rebuild, New Dems are turning to fresh faces. On Apr. 17, Smith, Jim Davis (Fla.), and Ron Kind (Wis.) took the helm of the New Democrats' House coalition. They'll work with Democratic Leadership Council Chairman Senator Evan Bayh (Ind.) to regroup.

Although high-tech money isn't flowing like it used to, funding is not yet an issue. The New Democrat Network, the group's campaign fund-raising arm, took in \$5.4 million for the 2000 elections and hopes to boost that by almost \$2 million this cycle.

But business remains skeptical. None of the new leaders has voted with business more than 48% of the time. Yet given the closely divided Congress, corporate lobbyists can't afford to write off anybody. “We're rebuilding some of the bridges that were burned from the trade vote,” says Ralph Hellman, a lobbyist for the Information Technology Industry Council.

Even if the New Democrat movement regains Corporate America's trust, it still must find new ideas—and a new leader. Contenders for that role include Senators John Edwards of North Carolina and Joseph I. Lieberman of Connecticut—both possible Presidential candidates in 2004. Neither seems likely to generate that old Clinton electricity.

Woellert covers Congress.

The business intelligence test that Business Objects doesn't want you to take.

1. Want a Free Test Drive?



Brio Software deploys faster because it is easier to use and manage than Business Objects. And the people who have Brio overwhelmingly report that it's so intuitive that they actually use it. Without requiring training. (Maybe that's also why 69 of the Fortune 100 use Brio.) So, to pass Part One of this business intelligence test, see if *you* can use it. Take our Free Brio Software™ Test Drive.

- ☐ Email a request to testdrive@brio.com
- ☐ Register at www.brio.com/testdrive
- ☐ Call us at 1-877-BUY-BRIO (1-877-289-2746)

2. Want a Free Buyers' Guide?



Finally, somebody explains business intelligence in plain English—including the many hidden costs that our competitors may not want you to take into account. So, to pass Part Two of this business intelligence test, get *The Intelligent Guide to Business Intelligence*.

- ☐ Email a request to guide@brio.com
- ☐ Or call us at 1-877-BUY-BRIO (1-877-289-2746)

3. Want all of the above?

Join the 2 million people at 10,000 customer sites who've already passed this test.

- ☐ Call and ask for both at 1-877-BUY-BRIO (1-877-289-2746)



The Business Performance Software Company™

BusinessWeek

Investor

MAKING LIFE RICHER

**New
Tools for
Social
Investing**



■ **Music
Lessons for
Grown-ups**

■ **Hers: How
One Dot-Com
Survived**

■ **Barker: Regal
Entertainment
Goes Public**

William Glaser

Following Your Conscience Is Just a Few Clicks Away

The Internet can help you take do-good investing into your own hands



BY SUSAN SCHERREIK

Brian Hotchkiss likes his investments and green. The 48-year-old Boston entrepreneur shuns big oil companies and others he sees as polluters while seeking out businesses that promote alternative energy sources. He recently bought shares in Electrolux, for instance, because the Swedish appliance maker sells a solar-powered lawn mower among other energy-efficient products. "I'm not at all methodical," Hotchkiss, whose portfolio of 16 socially responsible stocks has gained 7% in two years. "I look for companies with solid financial performance that are doing good things." Hotchkiss gets many of his ideas from investor meetings and boards on Web sites such as TheMotleyFool and Morningstar.com.

At one time, investors such as Hotchkiss might have relied on socially responsible mutual funds. But now, many are practicing do-good investing on their own. That's because the Internet has made it much easier for them to check out companies' records on environmental, social, and ethical issues. Web-based investing services such as FOLIOfn also guide individuals in crafting their own portfolios of socially responsible stocks.

The growing availability of separate accounts is also encouraging an activist approach. Gear up investors with \$100,000 or more, these accounts are professionally managed stock and bond portfolios. Unlike mutual funds, however, investors can customize holdings to, say, avoid tobacco stocks or drug companies engaged in animal testing. "Socially responsible investors want to do good because no two people may look at a company the same way," says Linda Descano, who manages \$2 billion in socially responsible investments at Smith Barney Asset Manager. Arnold Abens, an Edina (Minn.) financial planner specializing in socially responsible investing, says that Amazon.com, like other Internet companies, passes most social screens. Nevertheless, a client recently directed Abens to dump his Amazon.com shares because the client, who is against abortion, learned that the online retailer makes donations to Planned Parenthood.

Checking out companies' records

another reason investors are trying their hands at socially responsible investing: It's profitable. Over the past decade, the Domini 400 Index, the industry's benchmark, showed average annualized 14.02% return (through 2001, vs. 13.27% for the Standard & Poor's stock index. Assets in socially screened portfolios under professional management shot up to \$2 trillion, from 1999 to 2001, vs. a 22% for all managed assets during that period, according to the Social Investment Forum. For decades, individuals had little choice but to invest in funds because social and ethical information about companies wasn't widely available.

Investment Group, Domini Social Investments, and other funds use their own analysts' research firms to examine companies' records on the environment, labor practices, and social issues.

Now, a handful of Web sites give individuals access to this information. SocialFunds.com, for instance, provides data on 1,800 large and midsize companies. However, SocialFunds and similar sites don't tell you about the companies, so you have to sort through the findings on your own.

Consider General Electric. SocialFunds.com offers a checklist of common social screens that tells you GE is involved in many endeavors but not alcohol, gambling, tobacco, nuclear, or nuclear power. But if you check GE's 10K you'll see that the company provides support services to and makes equipment for nuclear power plants. Why the discrepancy? Julie Gorte, director of social research at the Investment Group, says that the "nuclear power" screen is typically applied only to utilities that generate electricity with nuclear power, not to companies involved in maintaining or building nuclear power plants. SocialFunds.com also provides articles on other social and environmental topics related to GE, including the company's continuing dispute with the federal government over cleaning up contamination in the Hudson River, and how its NBC unit was involved in a scheme to run liquor ads under pressure from public advocacy groups.

Other Web sites, CSRwire.com and CorporateRegister.com, give investors access to reports that companies issue on how their businesses affect the environment and human rights. Some U.S. and European companies issue these so-called "sustainability reports," including Intel, Ericsson, and Conoco.

What can you learn from these reports? In McDonald's first "social responsibility" report, is-

sued in April, the fast-food giant notes that 40% of its packaging comes from recycled paper, and Calvert's Gorte says McDonald's is a leader in this area. A bigger issue for socially responsible investors are concerns about the conditions under which its livestock and poultry are raised. The company says in its report that it is helping to implement improvements on farm-animal welfare.

Read these reports with a critical eye. Common social reporting standards don't exist, so companies can say what they want. Gorte estimates that about two-thirds of the reports provide measurable information, such as how many workers have been injured in factory accidents or levels of toxic emissions.

Where to Vet the Stocks

SITE (WWW.)

DESCRIPTION

CorporateRegister.com

Lists corporations that issue socially responsible and environmental "sustainability" reports.

Crosswalk.com

Offers "value reports," based on fundamentalist Christian beliefs that criticize companies for producing anti-family entertainment and other activities. Click on Tools, then Investigator.

CSRwire.com

Gives access to sustainability reports issued by some 100 companies plus dozens of corporate press releases tied to socially responsible subjects.

Foliofn.com

Investing service that offers six preselected baskets of socially responsible stocks based on different screening criteria; these folios can be customized.

TheMottleyFool.com

Offers a socially responsible investing discussion board.

SocialFunds.com

Provides social and ethical information on more than 1,800 companies.

A boon for socially responsible investors are Web sites that allow you to buy baskets of stocks. BuyandHold.com and Sharebuilder.com, for example, let investors assemble diverse stock portfolios with small amounts, say \$500. Foliofn.com offers six preselected baskets of 30 stocks each screened for a variety of social issues. You can invest in these folios as is or customize them. The top performers are the Women Leaders folio, comprised of companies with the biggest percentage of women board members, up 28% for the year through Mar. 31, and the Minority Leaders folio, similarly made up of companies with the largest showing of minority board members, up 15%.

Boston entrepreneur Hotchkiss originally built a socially responsible portfolio from scratch at Foliofn two years ago with a \$7,500 initial investment. Two months ago, he also invested in the Women Leaders folio. Foliofn charges \$15 a month for one folio of up to 50 stocks, or \$30 monthly for up to three folios.

When it comes to separate accounts, investors typically ask that their portfolios be free of to-

mental, social, and ethical issues is a lot easier for investors, thanks to the Web

tabacco companies, drugmakers that test with animals, or weapons makers, says Len Reinhart, chairman of Lockwood Financial Group, which recommends 55 managers for its \$8.5 billion separate-accounts business. Reinhart estimates that \$2.4 billion of that amount has some sort of social restriction, including \$90 million under the direction of managers at Ariel and other firms that specialize in social investing.

For those investors who would rather leave the screening to mutual funds, there are dozens with different social objectives and plenty of solid performers, including funds offered by Vanguard and TIAA-CREF. The 74 socially responsible funds

Morningstar tracks have returned an average 6.95% over the past five years, vs. 6.54% for average fund. "As a group, socially responsible funds tend to be as good as or better performers than other funds," says Morningstar analyst Catherine Hickey. Some highly rated funds include Ariel Appreciation, Parnassus Income Equity, Calvert Social Investment Equity (see box).

Investors have learned that they need to check their values at the door to make money. But savvy social investing requires you to be as stringent in examining a company's financial record as its social record. Happily, the market now gives investors lots of tools to do both

SOCIALLY RESPONSIBLE—AND BEATING THE S&P

“High-quality companies...tend to have good records on the environment and treat their employees well, which results in lower turnover and ultimately lower costs”

Any investment manager who is making money when most aren't deserves attention. That's even more true for Daniel W. Boone III, portfolio manager of the \$443 million Calvert Social Investment Equity fund, whose companies not only have to meet all the high financial standards but socially responsible ones, too. The fund earned an average total return of 6.98% a year over the past three years



BOONE: BEAT THE S&P 500 OVER THREE YEARS

(through Apr. 26), according to Morningstar. During that period, the Standard & Poor's 500-stock index lost an average 6.24% a year.

Boone, 57—yes, he's named for his famous frontiersman ancestor—is a managing partner at Atlanta Capital Management in Atlanta. He has run the fund since September, 1998. Personal Finance Editor Susan Scherreik spoke with him about his investing philosophy.

How do you pick stocks within the constraints of socially responsible screening?

We look for large companies with above-average growth prospects in out-of-favor sectors, avoid IPOs and other companies too young to have gone through a couple of economic cycles. But we don't buy a stock unless Calvert's analysts give it a pass.

What kind of companies are screened out?

Companies that are polluters, discriminate against employees, hire sweatshop labor, produce nuclear power, weapons, tobacco, alcohol, or engage in gambling.

Does this limit your universe?

Very little. High-quality companies tend to be socially responsible. They tend to have good records on the environment and treat their employees well, which results in lower turnover and ultimately lower costs.

Does screening enhance performance?

It can. In the fall of 2000, for instance, we were forced to sell Tyco International. Tyco had released information on its environmental record that Calvert saw as negative. Tyco's price has since dropped 70%.

What are you buying now?

Drug stocks like Pfizer and Schering-Plough. The sector has been battered by worries about patent expirations and lack of new products, and valuations are at their lowest point in eight years. We think in two years drug company profits will look much better.

So you have a long time horizon?

We hold stocks two to four years. If you're not worried about this coming quarter, you can afford the luxury of sorting out long-term winners.

What else do you like?

I'm buying tech stocks like Cisco, Dell, Intel, Microsoft, and Oracle. These companies have a strong competitive position and will thrive even if macro conditions are better.



**JOE LEFT A MESSAGE AT HIS COWORKER'S OFFICE.
JOE LEFT A MESSAGE ON HIS COWORKER'S CELL.
JOE WAITS FOR ANSWERS
UNTIL A COMPETITOR CLOSES HIS DEAL.
JOE'S COMPANY NEEDS THE SPRINT PCS
CLEAR WIRELESS WORKPLACE.®**

Give your employees a single number for their office line and wireless phone,
so they can make calls to wherever they are on the Sprint PCS Nationwide Network,
reaching more than 230 million people. So they have a better chance of connecting.

You can also let them check all their messages by calling a single voicemail box.
So they can get, and return, their messages sooner.

We'll do a lot more to help them stay in touch. It's one part of the Clear Wireless Workplace
called the Sprint PCS Integrated Office.™ Get the whole story at sprintpcs.com



Sprint PCS®

Your Inner Musician Is Just Waiting to be Found

It's never too late to learn an instrument, as plenty of adults prove

BY ROBIN D. SCHATZ

As a girl, J.L. Hampton begged for piano lessons, but her mother refused. Even after she inherited a piano from her mother-in-law seven years ago, she held back, not wanting to upstage her son, who was taking lessons. But her son Wade, now 15, quit piano last year, and she slid into his time slot. "It's like always talking about going on a diet," says Hampton, 48, who manages the Manhattan office of an executive recruiting firm. "One day, you finally do it and feel good about it."

There's no one reason that perfectly sensible, professionally accomplished adults submit themselves to the humbling experience of learning an instrument. What does seem clear is that if you take the plunge, you'll have plenty of adult company. The Music Teachers National Assn., a trade group, reports that 25- to 55-year-olds are the fastest-growing group of new students.

For some adult students, music lessons provide a creative outlet and a way to put aside, for just a few hours a week, day-to-day worries. "It's not always easy trying to play a new piece, but there's something very therapeutic about it," says Rebecca Ostrovsky, 51, who is studying the piano when she's not managing her husband's radiology offices in Manhattan. For others, it's "unfinished business from their childhood,"

says Joseph Kerr, a piano teacher who counts four mothers of current or former pupils, including Hampton and Ostrovsky, among his 19 students. Besides being fun and relaxing, learning an instrument can enhance mental acuity and reduce anxiety, some research suggests. One study of adult keyboard students even showed increased levels of human growth hormone in the bloodstream. Many age-related conditions, from wrinkling to osteoporosis, are linked to its decline.

Not surprisingly, the music industry is publicizing the virtues of music-making for adults. Among the more successful efforts of the International Music Products Assn. is its sponsorship of the New Horizons Band program, begun a dozen years ago by Roy Ernst, former director of the University of Rochester's Eastman School of Music. The idea was to take adults—rank beginners and those who had played as children—supply them with instruments, give them instruction, and get them playing. There are now 61 such groups nationwide.

If you're thinking of finding your inner musician, be ready for frustration. In the beginning, you're more apt to make frightful noises than beautiful music. "Kids prepare themselves to the next door, and adults prepare themselves to Mother Perahia and Arthur Rosenthal," says Matthew Harre, a piano teacher in Washington and founder of the Adult Music Student Forum, an organization for adult students and teachers. You'll be better off if you expect to make plenty of mistakes.

Physical challenges limit your ambition as well. "You don't have the manual dexterity, that quick muscle learning you have when you're a child," says Alice Kissling, 55, assistant general counsel

Getting Started

Planning to take up an instrument or return to a childhood favorite? Here's a sampling of resources:

PROGRAMS AND ORGANIZATIONS (www.)

ADULT MUSIC STUDENT FORUM
amsfperform.org
202 686-3513

INTERNATIONAL MUSIC PRODUCTS ASSN.
800 767-6266 ext. 129

MUSIC TEACHERS NATIONAL ASSN.
mtna.org
513 421-1420

NATIONAL PIANO FOUNDATION
pianonet.com/index2.html
972 233-9107

NEW HORIZONS BAND
newhorizonsband.com

DESCRIPTION

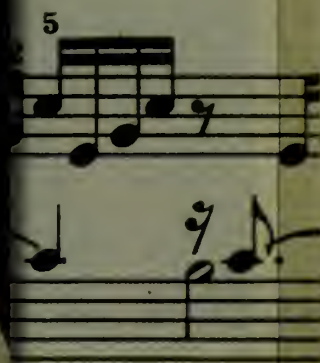
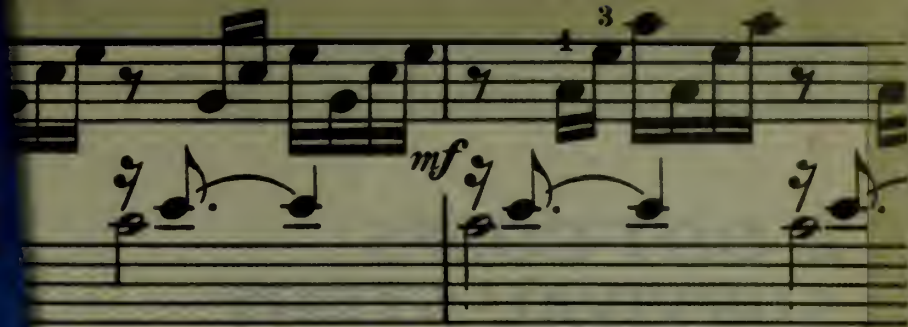
An organization of adult music students and educators in the Washington area that frequently sponsors student recitals.

Helps you locate retailers in its Weekend Warriors program, which puts adults into rock bands.

Offers advice, including interview tips, on finding a private music teacher and a directory of its certified members.

Click on the publications area for articles about starting piano lessons as an adult and choosing a piano.

About 60 bands and orchestras nationwide for adults age 50 and up. Offers group lessons for beginners.



PRACTICE, PRACTICE: Scott Anderson (top right) plays with his guitar teacher; Rebecca Ostrovsky tickles the keys

American Family Mutual Insurance in Madison, Wis., who started playing guitar a decade ago. Putting lessons and practice into busy work and travel schedules confounds many adults. "Your focus is so fragmented," says Washington economist and columnist Fred Flick, 55. Nevertheless, Flick, who took up the piano when he received lessons as a Christmas present from his wife 14 years ago, admits that pushing himself to play better is something of an obsession.

On other fronts, adult learners have a leg up on junior. They may have a sophisticated understanding of music gleaned from years of listening and concert-going, and many understand their own learning styles, says Cheley Bowles, Bowles' teacher and director of continuing education at the University of Wisconsin at Madison. Those who can already read music and understand phrasing will find it easy to transfer knowledge from one instrument to another. Adults are also generally more self-directed. They come into the class knowing what they want to accomplish, and there's a lot more collaborative goal-setting," says Bowles. And for many, the musical journey is at least as important as the final destination. That's certainly the case for Scott Anderson, 31, who hated practicing saxophone as a kid but now is determined to play the guitar well enough to serenade the bride and his wife expect to adopt soon. One day a week, Anderson, director of public relations at Foote, Cone & Belding Southern California in Irvine, meets with his teacher for an hour-long lesson in an office conference room to avoid the rush-hour traffic. At lunchtime most days, he practices in a nearby park.

If you haven't settled on what instrument to play, think about your musical preferences, suggests Jill Sullivan, an assistant professor at Arizona State University's School of Music, who helps teachers in matching students with instruments. Do you like higher sounds, more mel-

low timbres, or brighter ones? Can you stand the blare of a trumpet, and, more to the point, can you play your neighbors? Then, consider your physical limitations. For instance, the trombone might be better than the guitar for arthritis sufferers.

Group classes can be a great low-cost introduction to a new instrument, as well as a chance to socialize. Check with your local community college, music school, or adult-education program. To keep your costs down, rent an instrument from a music store until you're sure you like it. Or check neighborhood bulletin boards and want ads for a used instrument.

For more personal attention, you can get a private teacher, but expect to pay \$30 and up an hour. To find his guitar teacher, Anderson scouted out clubs for musicians whose style he admired. Then, he interviewed the teachers with the same rigor he applies to screening job candidates. Ask teachers how much experience they have with adults and check their references. Talk about their expectations and yours.

To get the most out of your lessons, carve out regular practice time. Hampton heads for the piano the minute she gets home. But remember, it's supposed to be fun. Even if you practice, practice, practice, Carnegie Hall probably isn't in your future—and that's beside the point anyway. Kissling says she can spend a week at her corporate law job without feeling she has made the world any better. But "when I'm making music with my friends, we know we've made something lovely." That's reason enough to keep on playing. ■

Besides being fun and relaxing, learning an instrument as an adult can enhance mental acuity and reduce anxiety, research suggests

A DOT-COM'S SURVIVAL STORY



BY TODDI GUTNER

hers@businessweek.com

VIPdesk is a nationwide service that will buy you tickets, send flowers, or do other chores. The company turned a profit in February

When I met Mary Naylor nearly two years ago, she was bustling around the country trying to raise \$20 million for her Internet concierge service, VIPdesk. The company secures theater tickets, sends flowers, and does other gofer chores for customers of such corporate clients as MasterCard International and Citibank. Naylor and I hooked up at Springboard, a venture-capital forum for women entrepreneurs. "I've shown up at so many networking and venture-capital events that people ask me if I have a clone," Naylor said in this column on Aug. 7, 2000.

Well, Naylor ended up raising \$7.5 million, far short of her goal. Nevertheless, amid the wreckage of thousands of dot-coms, VIPdesk still stands. More impressive, in two years revenues have nearly tripled, to more than \$11 million. It added 25 clients to its initial list of six, and now employs 89 people, up from 25. The Alexandria (Va.) company even became profitable in February.

I was curious to know how Naylor pulled it off. First, she went into the venture-capital market with a backup plan. "We had several strategic growth plans at different funding levels," she said recently. Since she reached only about a third of her funding target, she spent less on technology and marketing than she originally intended, and scaled back her expansion plans.

While other dot-com startups tried to sell some pie-in-the-sky ideas, Naylor already had a healthy track record in the very business she wanted to transfer to the Web. VIPdesk (which dropped the ".com" about a year ago) grew out of Capitol Concierge, a \$6 million operation she started in her mother's basement with \$2,000 in 1987. Capitol Concierge assists Washingtonians who are too busy to stand in line at the motor vehicles bureau or plan a surprise party. Rather than market to individuals, Naylor sold her concept to office and apartment managers who then offered tenants the benefit.

In 1997, Naylor turned over Capitol Concierge's operations to a longtime employee so she could start VIPdesk. Naylor saw the Internet as the perfect tool to take her concierge services nationwide, and therein lies a big part of VIPdesk's success. Unlike other Internet companies that thought they could give away their services and make money on advertising, "we viewed the Web only as tool, as an alternative communication channel," says Naylor.

For example, a Mastercard customer with the VIPdesk benefit can place a request over the telephone, a wireless handheld device, or the Internet. Say someone wants four tickets to the Baltimore Orioles baseball game. The request goes directly to an employee in the field or, if that person is unavailable, to a call center at the company's Virginia headquarters. VIPdesk then routes the request to one of its local business partners. Average processing time: 30 minutes. Clients pay an annual fee per person for service access; some 10.5 million people can use VIPdesk.

Naylor gives much credit to her board of directors, which includes Mark Teitelbaum, a venture capitalist and angel investor who backed Capitol Concierge. Teitelbaum still leaves late-night messages on her voice mail reminding her that "expenses follow sales." This support has helped her maintain a bootstrap mentality.



NAYLOR: A healthy track record before going to the Web

"We've been tightfisted and preserved our profits," says Naylor. To encourage savings, the company awards a monthly "penny-pincher" bonus of \$400 to an employee who helps reduce expenses.

Clients also present her with new growth opportunities. For example, a banking client developed a high-level benefits program that included many nonconcierge services such as travel perks. The company needed a master negotiator, so VIPdesk took on the job.

Among Naylor's challenges are signing up new clients. It used to take two to four months to get the service. Now it can take 6 to 12 months to close a deal. Naylor hopes eventually to partner with a strategic partner, but has yet to find the right company. As a consummate networker, though, Naylor's likely to make a match.

BusinessWeek online

To join a discussion in our forum, see hers.onlinebusinessweek.com/investor/

The photograph captures a man in profile, focused on a large document. The document he holds features a table with several columns, including headers like "Country", "Population", "Area", "GDP", and "Per Capita Income". The rows list various countries, with data points for each. In the foreground, a pair of glasses lies on a document with some handwritten notes. The background is a dense array of bookshelves, creating a scholarly atmosphere. The overall composition emphasizes the man's engagement with the data and the intellectual setting.



THIS MOVIE TICKET COSTS TOO MUCH



BY ROBERT BARKER

rb@businessweek.com

Although Regal Entertainment Group has the nation's greatest number of movie screens, its IPO price looks a tad glitzy

My list of mundane annoyances is too long for my own good. But one I just can't get over is the advertising we're forced to watch while waiting for movies to start. After paying \$7 for a show the other day, I sat through ads for Coke, realtors, Coke, video games, Coke, discount dental bleaching ("\$145 complete!"), Coke, nachos, Coke, organ donation, plus Coke siblings Sprite, Dasani, and Mello Yello.

This nuisance will worsen soon, as the nation's No.1 chain of movie theaters, Regal Entertainment Group, goes public. In an initial stock offering led by Credit Suisse First Boston, Regal expects to raise \$284 million. Most of it will go to repay debt. But a chunk is earmarked for Regal's plan to turn its theaters into a satellite-linked digital network for showing ads every bit as sharp as those we see at home on TV.

Hateful as in-theater advertising may be, there are better reasons for saying "no thanks" if your broker tries to interest you in Regal shares. The company, controlled by Denver billionaire Philip Anschutz, is making good money and appears positioned to grow. The IPO is sure to add to the fortune Anschutz has amassed in oil, cattle, real estate, railroads, and telecom. But its terms also suggest that public investors will be paying a premium for something that they can find a lot cheaper elsewhere.

Anschutz assembled his theater operation by taking three individual chains—Regal Cinemas, United Artists Theatres, and Edwards Theatres—out of bankruptcy. Along with the rest of the industry, they suffered from the glut of screens brought on by a mid-'90s spate of

megaplex construction. This year, Anschutz merged his three chains, set up headquarters in Knoxville, Tenn., and kept on Regal and UA executives Mike Campbell and Kurt Hall as co-CEOs.

Regal's executives were keeping quiet about the IPO, but the registration statement offered a few financial details. If the consolidated company had operated in 2001 the way it does now, 5,886 screens would have drawn 241 million moviegoers and \$2 billion in revenue. Net income would have come to \$53 million; EBITDA, earnings before interest, taxes, depreciation, and amortization—would have hit \$358 million. This year's first quarter, Regal estimates its EBITDA of \$108 million on revenue of \$522 million.

For future gains, Regal is counting on cutting operating efficiency and, as an added

source of growth, linking its theaters by a digital network.

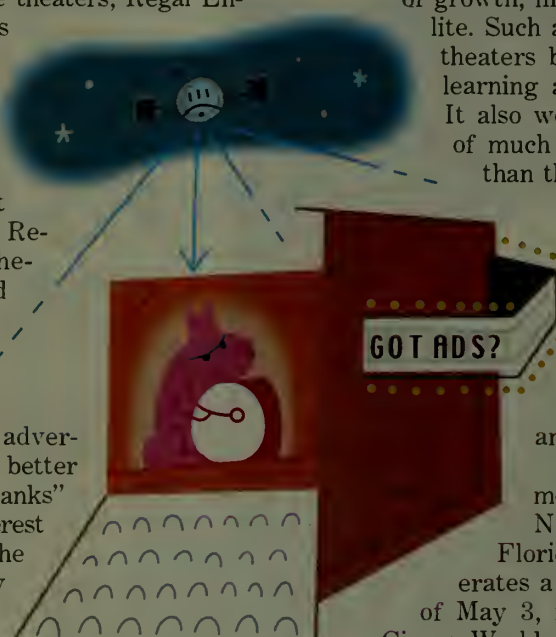
Such a digital network would allow theaters become arenas for digital learning and corporate conferencing. It also would permit live-action advertising of much higher production quality than the dull slide shows common in theaters today. "You've got people in a room without a TV, a remote control, you've got the ability to pump in ads via satellite," one investor told me. "It's an opportunity."

Maybe, unless it allows moviegoers to rival the home theater. Not far from my home in Florida, for instance, Regal operates a nice, 10-screen theater.

On May 3, it will be competing with CinemaWorld, a new megaplex that has gone up less than four miles away. It has 12 screens and tiered, or "stadium," seating.

maWorld CEO Dave Fedeli sees small future in extensive in-theater ads: "This business is about selling movie tickets, corn, and soda." In the IPO, Regal expects to sell about 17 million shares of its stock at \$17 a share. This indicates a market value of \$2.2 billion, a bit more than one year's sales. How does that compare? Regal's closest analog is AMC Entertainment, which did its own merger this year and operates the nation's second-biggest chain. True, AMC is burdened by somewhat more debt relative to its sales and cash flow. Its screens also are less productive. Yet its stock is far cheaper, trading for under 0.3 times sales.

Or forget the numbers, if you like, and think about Regal's IPO this way: Phil Anschutz didn't get rich by buying cheap and selling cheap.



Making It at the Movies

COMPANY/SYMBOL	2001 REVENUES MILLIONS	TOTAL SCREENS	EBITDA PER SCREEN*	NET DEBT MILLIONS	MARKET VALUE MILLIONS
AMC ENTERTAINMENT AEN	\$1,586	3,457	\$56,566	\$539	\$457
REGAL ENTERTAINMENT GROUP RGC**	2,027	5,886	60,822	610	2,210

*EBITDA is earnings before interest, taxes, depreciation, and amortization

**Symbol is tentative; operating data are pro forma for reorganization and IPO; net debt is at yearend 2001; market value is based on estimated IPO price of \$17 a share

Data: Company reports, BusinessWeek

BusinessWeek online

For barker.online, go to www.businessweek.com/investor/ and click on "C"

ACKING THE BROKERS



GENE G. MARCIAL

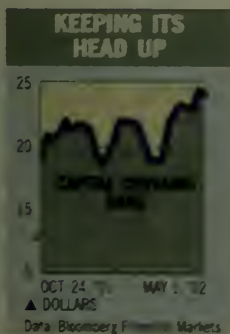
...Merrill, Goldman, Morgan Stanley: ...e plays? ...ty of banks ...gladly bid for ...tal Crossing. ...Aventis as an ...Genta is on ...th to profits

With the market on the ropes, Wall Street is feeling investors' ire—in part because of the unprecedented probe of dubious dealings between analysts and investment bankers (page 36). For brokerage stocks in particular, it has been doom and gloom lately. But not everyone is down on the Street: "We've been buying Merrill Lynch (MER), Goldman Sachs (GS), and Morgan Stanley (MWD) shares because they've become compelling value plays," says Bob Olstein of Olstein Financial Alert Fund, who looks way behind the numbers. He warned of trouble at Lucent in 1999, when the stock was trading at 60. With regard to the three brokers, he says they have "tremendous earning power." He adds that they have assets, too, whose value has been enhanced by layoffs and cost-cutting—and steady income from interest, advisory, and management fees. Since January, Merrill has tumbled from 60 to 42, trading at 12 times estimated 2002 earnings of \$3.50 a share. Goldman has fallen from 98 to 79, or 16.6 times \$4.75. And Morgan has dived from 60 to 48, or 16 times \$3. The average price-earnings ratio for the Standard & Poor's 500-stock index is 25. Olstein figures that in 2003—with the recovery in gear—Merrill will earn \$4.50 a share, Goldman \$6, and Morgan \$4.25. "You've got to buy in the eye of the hurricane to get these valuable franchises at bargain prices." He figures the probes will cost \$1 billion to \$2 billion industrywide: "We've adjusted for this in our valuations," says Olstein.

Jim Mitchell of Putnam Lovell Securities has upgraded Merrill and Morgan Stanley from "hold" to "buy," and Reilly Tierney of Fox-Pitt Kelton has upped Goldman to "attractive."

CAPITAL CROSSING: IS IT BUYOUT BAIT?

You probably won't come across Capital Crossing Bank (CAPX) for your banking needs: It's something of a last resort for commercial and investment banks: These big institutions sell hard-to-collect loans to Capital for a good deal less than the amount of the outstanding balance. This niche business has been a nice moneymaker for Capital. Little wonder that Capital stock has outperformed that of most other banks, leaping from 16 on Sept. 21 to 27 in mid-April, before



BEATEN DOWN

STOCK	PRICE MAY 1	52-WK HI-LOW	12-MONTH TARGET
MERRILL	42	71-33	70
GOLDMAN	79	105-63	110
M. STANLEY	48	75-35	70

Data: Bloomberg Financial Markets
Olstein & Associates

easing to 23 on May 1. Capital should earn \$3 a share this year and \$3.50 in 2003, figures investment pro James Awad, who heads Awad Asset Management, which owns 11% of the stock.

He hasn't unloaded his stake—partly because he thinks Capital is "attractive takeover prey." A much-sought-after buyer of unwanted loans, Capital has become a useful ally of Citigroup, Goldman Sachs, Lehman Brothers, and others. They usually sell some of the loans they end up with from acquisitions. "If Capital's Chairman and CEO Nick Lazares and co-CEO Richard Wayne decide to sell, any one of the larger financial firms would be a buyer—in a heartbeat," says Awad. He figures Capital is worth 27 to 38 a share, based on 1½ to 2 times its book value of \$19 a share. Lazares and Wayne say that they are not ready to sell. "We're still building up the company," says Lazares.

GENTA'S CRUCIAL PACT WITH AVENTIS

To Genta (GNTA), a small biotech that focuses on cancer therapy, the pact it signed with French drugmaker Aventis on Apr. 29 was a big deal. But its stock hardly budged, because of the market slump and weak biotech sector. It rose from 11.72 to just 12.78 on the news. On May 1, the stock climbed a bit more, to 13.41—still way off its 52-week high of 18.49, which it hit in late March.

But to Mark Monane of investment firm Needham, who rated Genta a strong buy even before the deal, the stock's slow reaction presents a chance to buy Genta at reasonable levels. Monane, who doesn't own Genta shares, has a 12-month price target of 28 a share. Here's why: Genta and Aventis will jointly develop and market Genasense, Genta's flagship anticancer drug now in clinical trials, scheduled to be completed by summer. Genasense has demonstrated that it can block the production of certain protein cells that prevents chemotherapy from killing cancer cells. Aventis will give Genta up to \$480 million in cash plus achievement-milestone fees. CEO Ray Warrell says Aventis also bought \$75 million worth of stock, or 7%. With the cash infusion, Genta should be ready to file for Food & Drug Administration approval by yearend 2002 and can launch Genasense commercially by mid-2003, says Monane. An O.K. from the FDA isn't guaranteed, but if all goes as planned, Monane sees Genasense peak sales of up to \$750 million by 2007. He expects Genta to be in the black in 2004.

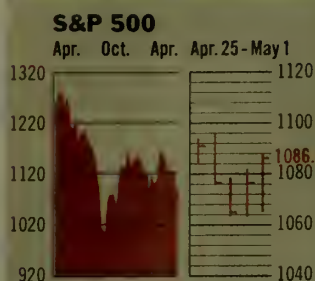
SO FAR, NOT MUCH IMPROVEMENT



BusinessWeek online

Read Gene Marcial's Inside Wall Street Online column Tuesday afternoons at www.businessweek.com/today.htm. And see him Fridays at 1:30 p.m. EST on CNN's *The Money Gang*.

Stocks



COMMENTARY

News of slower personal spending sent the Nasdaq and S&P 500 indexes falling to six-month lows on Apr. 29. Volume on the sell-off was light, however, and a decent consumer confidence number the next day brought back buyers. For the week, the Dow, paced by Coke and Philip Morris, rose 0.3%, while the S&P 500 and Nasdaq fell 0.6% and 2.1%, respectively.

Data: Bloomberg Financial Markets
Bridge Information Systems, Inc.

U.S. MARKETS

	May 1	Week	Year to date	Last 12 months
S&P 500	1086.5	-0.6	-5.4	-14.2
Dow Jones Industrials	10,059.6	0.3	0.4	-7.7
Nasdaq Composite	1677.5	-2.1	-14.0	-22.6
S&P MidCap 400	540.0	0.6	6.2	5.0
S&P SmallCap 600	255.2	0.8	9.9	14.8
Wilshire 5000	10,318.5	-0.4	-3.6	-11.6

SECTORS

BusinessWeek 50*	683.6	-0.9	-6.4	-23.4
BusinessWeek Info Tech 100**	346.5	-1.6	-17.4	-32.6
S&P/BARRA Growth	549.6	-0.9	-7.6	-12.5
S&P/BARRA Value	534.4	-0.4	-3.2	-16.2
S&P Energy	220.8	1.5	4.5	-10.5
S&P Financials	357.5	-0.5	0.6	-4.4
S&P REIT	99.5	1.2	6.6	12.8
S&P Transportation	201.3	1.7	2.2	-0.4
S&P Utilities	145.9	-3.4	0.0	-30.7
GSTI Internet	81.5	-2.7	-22.3	-44.5
PSE Technology	603.9	-1.8	-12.1	-23.0

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Managed Health-Care	17.1	Metal & Glass Containers 71.1
Homebuilding	17.0	Trucking 42.1
Apparel & Accessories	10.0	Homebuilding 41.1
Distillers & Vintners	9.4	Housewares & Specialties 36.9
Oil & Gas Drilling	8.9	Home Furnishings 35.5

EQUITY FUND CATEGORIES

4-week total return	%	52-week total return	%
Leaders		Leaders	
Precious Metals	5.6	Precious Metals	60.6
Japan	4.6	Real Estate	18.8
Small-cap Value	2.5	Small-cap Value	18.1
Diversified Pacific/Asia	2.2	Diversified Emerging Mkts.	10.0
Laggards		Laggards	
Communications	-9.7	Communications	-43.6
Technology	-9.5	Technology	-35.7
Health	-6.0	Japan	-26.5
Large-cap Growth	-5.2	Utilities	-24.0

EQUITY FUNDS

4-week total return	%	52-week total return	%
Leaders		Leaders	
ProFunds UltraShort OTC	19.2	First Eagle SoGen Gold	90.0
Rydex Dynamic Vent. 100	19.1	ING Russia A	84.5
Potomac Internet Short	15.3	Matthews Korea	82.4
CGM Focus	13.6	Gabelli Gold	77.5
Laggards		Laggards	
Frontier Equity	-20.8	ING Glob. Commun. A	-65.3
World GenomicsFund.com	-19.4	ProFunds UltraDTC Inv.	-64.9
ProFunds UltraDTC Inv.	-19.1	INVESCO Telecomms. Inv.	-63.0
Black Dak Emerging Tech.	-17.8	Black Dak Emerging Tech.	-60.1

Data: Standard & Poor's

GLOBAL MARKETS

	May 1	Week
S&P Euro Plus (U.S. Dollar)	1063.1	0.3
London (FT-SE 100)	5125.5	-1.8
Paris (CAC 40)	4462.7	-2.2
Frankfurt (DAX)	5041.2	-2.9
Tokyo (NIKKEI 225)	11,552.8	-1.6
Hong Kong (Hang Seng)	11,497.6	1.3
Toronto (TSE 300)	7647.3	-0.9
Mexico City (IPC)	7480.7	1.0

FUNDAMENTALS

	Apr. 30	Wk
S&P 500 Dividend Yield	1.46%	1
S&P 500 P/E Ratio (Trailing 12 mos.)	46.1	5
S&P 500 P/E Ratio (Next 12 mos.)*	19.3	1
First Call Earnings Revision*	-0.55%	0

*First Call Corp.

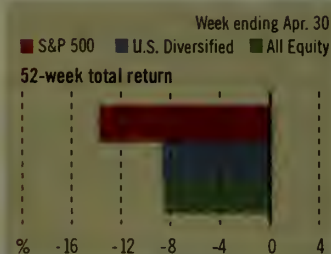
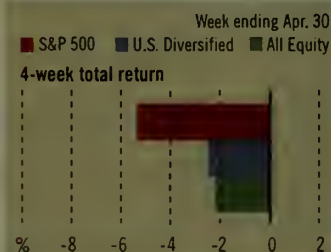
TECHNICAL INDICATORS

	Apr. 30	Wk
S&P 500 200-day average	1128.9	113
Stocks above 200-day average	71.0%	7
Options: Put/call ratio	0.88	0
Insiders: Vickers Sell/buy ratio	4.01	3

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Application Software	-25.9	Multi-Utilities
Networking Equipment	-21.8	Computer Stge.
Computer Stge. & Perphs.	-19.6	Telecomms. Equ
Office Electronics	-18.2	Wireless Service
Internet Software	-16.6	Instrumentation

Mutual Funds



Data: Standard & Poor's

Interest Rates

KEY RATES

	May 1	Week
MONEY MARKET FUNDS	1.54%	1.5%
90-DAY TREASURY BILLS	1.76	1.71
2-YEAR TREASURY NOTES	3.19	3.2%
10-YEAR TREASURY NOTES	5.06	5.10
30-YEAR TREASURY BONDS	5.56	5.6%
30-YEAR FIXED MORTGAGE†	6.79	6.8%

†BancQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENT

Taxable equivalent yields on AAA-rated, tax-exempt bonds, assuming a 30% federal tax rate.

	10-yr. bond
GENERAL OBLIGATIONS	4.23%
TAXABLE EQUIVALENT	6.04
INSURED REVENUE BONDS	4.38
TAXABLE EQUIVALENT	6.26

THE WEEK AHEAD

PRODUCTIVITY & COSTS Tuesday, May 7, 8:30 a.m. EDT ► Output per hour worked in the first quarter probably rose to an annual rate of 5.8%, and unit labor costs very likely slipped 2%. That's based on the median forecast of economists surveyed by Standard & Poor's MMs, a unit of The McGraw-Hill Companies. In the fourth quarter, productivity rose 5.2% while unit labor costs fell 2.7%.

FOMC MEETING Tuesday, May 7, 9 a.m. EDT ► The Federal Reserve Board's Open

Market Committee will meet to set monetary policy. Economists polled by S&P's MMs unanimously expect the Fed to hold the federal funds rate steady, at 1.75%.

INSTALLMENT CREDIT Tuesday, May 7, 3 p.m. EDT ► Consumers are expected to have added \$5.3 billion of new debt during March. In February, consumer debt grew by \$7 billion.

EXPORT-IMPORT PRICES Thursday, May 9, 8:30 a.m. EDT ► Import prices in April

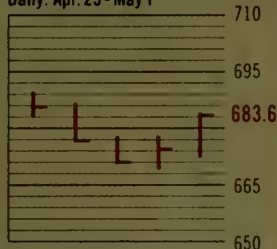
probably increased 0.7%, after a jump in March. Export prices inched 0.2% higher in April, following a 0.3% gain in March.

PRODUCER PRICE INDEX Friday, May 8, 8:30 a.m. EDT ► Producer prices for finished goods in April are forecast to rise 0.5%, after a 1% jump in March. Excluding food and energy, core prices probably rose by a smaller 0.1% in the second straight month. Higher energy prices are driving the top-line increase.

BusinessWeek Fifty

THE
BUSINESSWEEK **50**

Daily: Apr. 25 - May 1

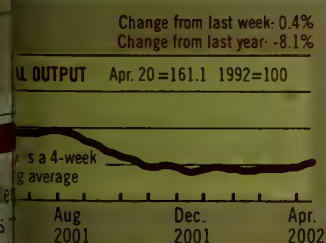


0.9% for the week, battered by weakness among energy providers Dynegy, down 38.8%, and Calpine, which split into four units. Meanwhile, WellPoint Health Networks and UnitedHealth Group climbed 7.7% each, on news of Anthem's \$3.6 billion Trigon Healthcare buyout.

COMPANY PERFORMANCE

	% change				% change	
	Week	Since 3/1/02			Week	Since 3/1/02
Johnson	0.5	5.0	26	Tenet Healthcare	1.0	27.5
ac	-0.9	2.7	27	Household International	-6.0	12.0
	2.7	-8.5	28	WellPoint Health Networks	7.7	26.6
	-3.8	3.1	29	Washington Mutual	2.6	17.3
ris	1.1	5.1	30	Duke Energy	-3.0	7.3
	-2.2	1.8	31	Kohl's	-0.2	8.4
e	-1.7	1.3	32	Bed Bath & Beyond	2.1	10.5
	-1.5	-5.7	33	Cardinal Health	1.3	6.4
	-2.0	9.7	34	Centex	-0.4	-1.1
ceBergen	6.2	12.3	35	American Electric Power	-4.2	4.2
th Group	4.2	23.6	36	Golden West Financial	2.7	8.2
	0.4	10.8	37	Stryker	2.9	-9.3
ot	-3.4	-6.9	38	Harley-Davidson	-0.2	4.4
tores	-1.1	-8.4	39	PepsiCo	0.0	4.8
	-38.8	-34.7	40	Merck	0.8	-9.8
namics	2.6	8.4	41	Apache	3.1	11.7
troleum	0.2	1.8	42	Amerada Hess	-1.4	11.2
poratories	-2.2	-3.5	43	KB Home	3.6	18.1
(R)	-3.3	-20.7	44	First Data	-2.9	-1.3
	-12.5	40.4	45	Tyco International	-22.6	-31.1
Petroleum	2.0	8.5	46	International Game Technology	6.0	-7.0
	0.7	-1.1	47	Capital One Financial	-7.9	20.4
s	0.8	5.3	48	Electronic Data Systems	3.4	-6.8
Oil	1.1	6.7	49	Nabors Industries	6.7	32.4
	-1.7	-2.9	50	Xcel Energy	0.9	8.3

Production Index



index showed another strong gain. Below the four-week moving average, the index rose 0.4% to 163.2, from 161.7. After seasonal adjustments, electric power had the largest increase, as temperatures in the mid-Atlantic and Midwest surged in demand. Trucks, rail freight rose moderately. Auto production was flat, as steel and crude-oil refining also fell. The index was unchanged.

For more information on the index components is at www.businessweek.com. Copyright 2002 by The McGraw-Hill Companies.

Online Resources

BW 50 Track the index and the companies in it all day long. Plus: our exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time market coverage and investment tools in partnership with Standard & Poor's.

MUTUAL FUNDS Search for funds, view BW ratings, and read Q&A's with fund managers.

COLUMNS Hot stocks, takeover plays, and the latest strategies for managing your money.

BusinessWeek online

For more investment data and the components of the production index, visit www.businessweek.com.

What's on
your health
horizon?

See inside
the BusinessWeek
special advertising section –
it's devoted to today's
important health issues and
how they affect you.

Discover
healthful living in
"Health Horizons:
News for Your Life"

For advertising
information, contact
stacy_sass-mcanulty@businessweek.com
212-512-6296

On sale: June 7
Issue date: June 17
Ad close: May 13

BusinessWeek

A Division of The McGraw-Hill Companies

AOL keyword: BW

MARKETPLACE

For Ad Rates and Infor
Phone: (312) 464-0500
Fax: (312) 464-0512

Luxury Bedding

Call toll free, or fax 1-888-732-0163
1-888-732-0163



The sleep miracle that's
recognized by NASA,
praised by the media,
extolled worldwide
by 25,000 sleep clinics
and health specialists.

FREE SAMPLE/FREE VIDEO/FREE INFO

© Copyright 2002 by Tempur-Pedic, Inc., 1713 Jaggle-Fox Way, Lexington, KY 40511

You must feel it to believe it!

WEIGHTLESS SLEEP.
starts with Tempur-Pedic.

Apparel

SIERRA TRADING POST

Your In-Home

OUTLET MALL®

SAVE 35-70%
on Name Brands

FREE catalog 1-800-713-4534

SierraTradingPost.com

Please mention Key Code BW202

Education/Instruction

Get Your MBA
Through Distance Learning

- Prestigious British University Accredited Under Royal Charter
- One of the World's Largest Distance Learning MBA Programs
- All Necessary Study Materials Provided
- Access To On-Line Facilities
- Support From Local Resource Centers and Student Networking
- Flexible Financing & Payment Plans Available



Call Today: 800-874-5844
or visit www.rdi-usa.com

rdi

ABSOLUTELY FREE EVALUATION

Bachelor's -- Master's --
Ph.D. Degrees

Based on life and work experience.
Confidential -- Fast -- Student
Loans. www.arcc.org

800-951-1203

DISTANCE LEARNING

BA, MBA, MA, Doctoral Degrees
Business, Psychology and Law

Southern California University
for Professional Studies

1840 E. 17th Street, Santa Ana, CA 92705
Since 1978

Education Loans Available
(800) 477-2254 WWW.SCUPS.EDU

Discount Travel

Las Vegas/New York
Discount Hotel Rates
Up to 65% Off!
Book Online @
hoteldiscount.com
1-800-310-4821
170 Cities

Business/Career Opport

Become a

equipment leases • Factoring
loans of ALL types • No experience nee

BUSINESS FINA CONSULTANT

SEE FOR YOU
Visit us at www.viewTLC.com where
money is as easy as receiving you
RECEIVE A COLOR INFO KIT
AND FREE VIDEO SEMINAR
The Loan Consultants, Inc.
since 1983

CALI

800-336-39

SIX FIGURE POTEN FROM HOME (part/full)

26-year-old international
multi-billion dollar technol
company with 5A1 D&B r

For details on our internet
marketing approach, vi

www.myautomaticbiz.co

Business Service

Sales Leads & Mailing

Business Lists--14 million busin
Select by geography, sales volume, business
name, credit rating, and more

Consumer Lists--266 million con
Select by age, income, home value, and more

Customer Analyzer/Prospect B
Analyze your customers & find prospects just
Free analysis & 25 leads at infoUSA.com

01-BWK 1-800-555-5335

eMail Marke

Advanced Email Newsletter C

- High powered delivery eyes
- Easy Online Interface
- Detailed Reporting and Tr

1-866-362-4

www.emailabs

Business Credit Re

In-depth detailed information
million businesses - virtually e
& Canadian business...only

Click or Call now...Your First Rep

BusinessCreditUS

Toll-Free: 1-888-274-533

Need a Log

Get a P
Custom
LOGO

Visa MC Amex
Toll-Free: 1-888-86-54
www.1800mylog

MARKETPLACE

comshare.com/bw

Visit our website to receive a copy
of our ROI white paper.

Plan

Budget

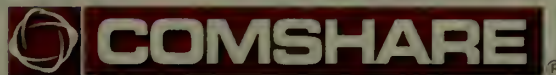
Report

Analyze

Success today depends on your ability to quickly respond to change. That requires accurately measuring performance, identifying trouble spots, and having the flexibility to adjust budgets and plans as needed. It's an ongoing process calling for a constant flow of timely, accurate data. Is your current business information system up to the challenge?

Comshare offers a single software application to help you implement, execute, measure and adjust your plans and actions faster and more effectively. Comshare enables you to model multiple business scenarios with the click of a mouse, use that information to allocate resources in support of strategic initiatives, and analyze online data and results immediately for quick response to change. By closing the gap between strategy and performance, Comshare business software delivers maximum ROI.

8 0 0 . 9 2 2 . 7 9 7 9



Software to help companies implement and execute strategy.

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABC (DIS) 54
Advanced Micro Devices (AMD) 80
Adventis 49
Alloy (ALOY) 74
Amazon.com (AMZN) 64, 74, 116
AMC Entertainment (AEN) 124
American Express (AXP) 16
American Family Publishers 16
American International Group (AIG) 54
Ameritech (SBC) 44
AOL Time Warner (AOL) 49, 74, 86
Apple Computer (AAPL) 12, 64
Aquent 96
Ariba (ARBA) 74
Arthur Andersen 14, 30, 36, 100
Art Technology (ARTG) 74
AT&T (T) 44, 86
Atlanta Capital Management 118
Autobytel.com 32
AutoPacific Group 102
Aventis 125

B

Bank of America (BAC) 12, 14, 36
BDO Seidman 100
Bear Stearns (BSC) 50
BellSouth (BLS) 49
Best Buy (BBY) 12
Black Entertainment Television 86
Blue Martini Software 96
BMW 58, 102
Boeing (BA) 82
Boise Office Solutions (BCC) 64
Bridgestone/Firestone (BRDCY) 36
BroadVision (BVSN) 74
Brooks Brothers 14
Buyandhold.com 116

C

California Public Employees' Retirement System 30
Calpine (CPN) 36
Calvert Group 116, 118
Campbell Soup (CPB) 14
Canon (CAJ) 90
Cantor Fitzgerald 74

Capital Crossing Bank (CAPX) 125
ChevronTexaco (TX) 64
Churchill Downs (CHDN) 12
Cinema World 124
Cisco Systems (CSCO) 54, 64, 92, 96, 118
CIT Group (CIT) 50
Citigroup (C) 12, 16, 30, 36, 44, 54, 64, 113, 122, 125, 132
CitySearch.com 74
Coca-Cola (KO) 98, 124
Comcast (CMCSK) 86
Commerce One (CMRC) 74
Compaq Computer (CPQ) 12, 54
CorporateRegister.com 116
Credit Suisse First Boston 36, 40, 124, 132

D

DaimlerChrysler (DCX) 50
Dell Computer (DELL) 54, 64, 118
Deloitte & Touche 100
Domini Social Investments 116
DoubleClick (DCLK) 74
Dow Jones (DJ) 14
DuPont (DD) 92

E

Eastman Kodak (EK) 90
eBay (EBAY) 74
Edwards Theatres 124
Electrolux (ELUX) 116
Electronic Data Systems (EDS) 74
Enron (ENRNQ) 14, 30, 36, 50, 57, 98, 100, 132
Ericsson (ERICY) 116
eSkye Solutions 64
eSpeed (ESPD) 74
E*Trade (ET) 74
Expedia (EXPE) 64, 74
Exxon Mobil (XOM) 14

F

Fairchild Semiconductor International (FCS) 80
Fannie Mae (FNM) 57
FedEx (FDX) 49
Fiat (FIA) 58, 60
Fidelity Investments 30
Flag Telecom Holdings (FTHLQ) 44
FleetBoston Financial (FBF) 14

Flextronics International (FLEX) 92
Ford (F) 36, 50, 58, 102
Forrester Research (FORR) 14, 64
Freddie Mac (FRE) 57
FreeMarkets (FMKT) 74
Fuji (FUJIY) 90

G

Game Show Network 86
Gartner Group (IT) 49, 64, 74, 80
Gateway (GTW) 64
General Dynamics (GD) 96
General Electric (GE) 48, 57, 58, 96, 116
General Motors (GM) 50, 58, 102
Genta (GNTA) 125
Giga Information 49
Global Crossing 44
Goldman Sachs (GS) 30, 36, 40, 48, 125
Google.com 54, 74

H

Hammerhead Networks 54
Hewlett-Packard (HWP) 12, 54, 78
Home Box Office 86
Home Shopping Network 86
Honda (HMC) 58, 85
Hotels.com (ROOM) 74
HotJobs.com (YHOO) 74

I

IBM (IBM) 26, 57, 64, 74, 116
IDC 14
InfoSpace (INC) 36, 46
Intel (INTC) 64, 80, 116, 118
iTradeNetwork 64
i2 Technoogies (ITWO) 74
iVillage.com (IVIL) 122

J

J.D. Power 32
Jeffries & Co. 49
Johnson & Johnson (JNJ) 14
Johnson Associates 40
J.P. Morgan Chase (JPM) 36, 54, 96, 98

K

Kaye/Bassman International 96
Kmart (KM) 54

KPMG International 30, 100
Kraft Foods (KFT) 92

L

Lazard Frères 36
Lehman Brothers (LEH) 40, 80, 125
Levi Strauss 64
Liberty Media (L) 86
Libyan Arab Foreign Investment 58
Lockheed Martin (LMT) 22, 82
Lockwood Financial 116
Loral Space & Communications (LOR) 82
Lucent Technologies (LU) 92, 96
Lucky Strike Farms 64

M

Magna Entertainment (MIEC) 12
MasterCard International 122
Match.com 74
Maytag (MYG) 92
McAfee.com (MCAF) 74
McDonald's (MCD) 116
McGraw-Hill (MHP) 126
MCI Group (MCIT) 44, 49
McLeodUSA (MCLDD) 44
Mellon Financial Services 40
Merrill Lynch (MER) 36, 40, 44, 46, 48, 74, 125, 132
Metromedia Fiber Network (MFNXE) 44
Metzler Bank 58
Microsoft (MSFT) 26, 54, 64, 113, 118
Modern Media (MMPT) 74
MoneyGram 12
Monster.com 74
Moody's Investors Service (MCO) 30
Morgan Stanley Dean Witter (MWD) 36, 74, 96, 125, 132
Morningstar 116, 118

N

Napster 64
Neoforma (NEOF) 74
NetBank (NTBK) 74
Network Appliance (NTAP) 48
News Corp. (NWS) 86
Nextrend 102
Nokia (NOK) 80
Northrop Grumman (NOC) 22

O

Olstein Financial Alert Fund (OFALX) 125
Olympus (OLYOY) 90
1-800-FLOWERS.com (FLWS) 74
Oracle (ORCL) 118
Overture Services (OVER) 54

P

Palm Computer (PALM) 26
Pegasus Research 74
Perot Systems (PER) 64
Peugeot (PEUGY) 58
Pfizer (PFE) 118
Philip Morris (MO) 36
Philips Electronics (PHG) 116
Priceline.com (PCLN) 74
PricewaterhouseCoopers 100
Prudential Securities (PRU) 36
Publishers Clearing House 16
Putnam Lovell Securities 36

Q

Qwest Communications International (Q) 44

R

Razorfish (RAZF) 74
RealNetworks (RNWK) 54
Regal Entertainment (RGC) 124
Robert Half International (RHI) 100

S

Sabre (TSG) 74
Safeguard Scientifics (SFE) 74
Salomon Smith Barney (C) 36, 44, 46, 116, 132
Sanford C. Bernstein (AC) 48, 58
Sapient (SAPE) 74
SBC Communications (SBC) 44
Schering-Plough (SGP) 118
Scient (SCNT) 74
Sony (SNE) 12, 54, 85
Standard & Poor's (MHP) 16, 30, 126
Starbucks (SBUX) 96
Starz Encore 86
STMicroelectronics (STM) 80
Sunbeam 100

Sun Microsystems (SUNW) 26, 48
Sycamore Network (SCMR) 54

T

Taco Bell (YUM)
Tele-Communications 86
Telewest Communications (TWSTY) 86
Texas Commercial Instruments 80, 96
Thomson Financial Call 36, 44
Ticketmaster (TI)
Travelocity.com TRW (TRW) 82
Tyco International 36, 50, 118
Tyson Foods (TS)

U

UAL (UAL) 54
UBS Warburg (U)
U-Haul (UHAL)
United Artist Theatres 124
United Pacific-Financial
U.S. Bancorp Personal (USB) 80

V

Vanguard 30, 118
Viacom (Via) 86
Vivendi Universal
Volkswagen (VL)
Volvo (F) 50
Vulcan Ventures

W

Wal-Mart Stores 32, 64, 96
Walt Disney (DIS)
Washington Mutual 74
Watson Wyatt (W)
Webcor Builders
WebMD (HLTH)
Wells Fargo (W)
Western Union
Weyerhaeuser (W)
Wilmington Trust
WorldCom (WC)
44, 49, 50
Wrigley 14

X

Xerox (XRX) 78
XO Communications (XOXO) 44

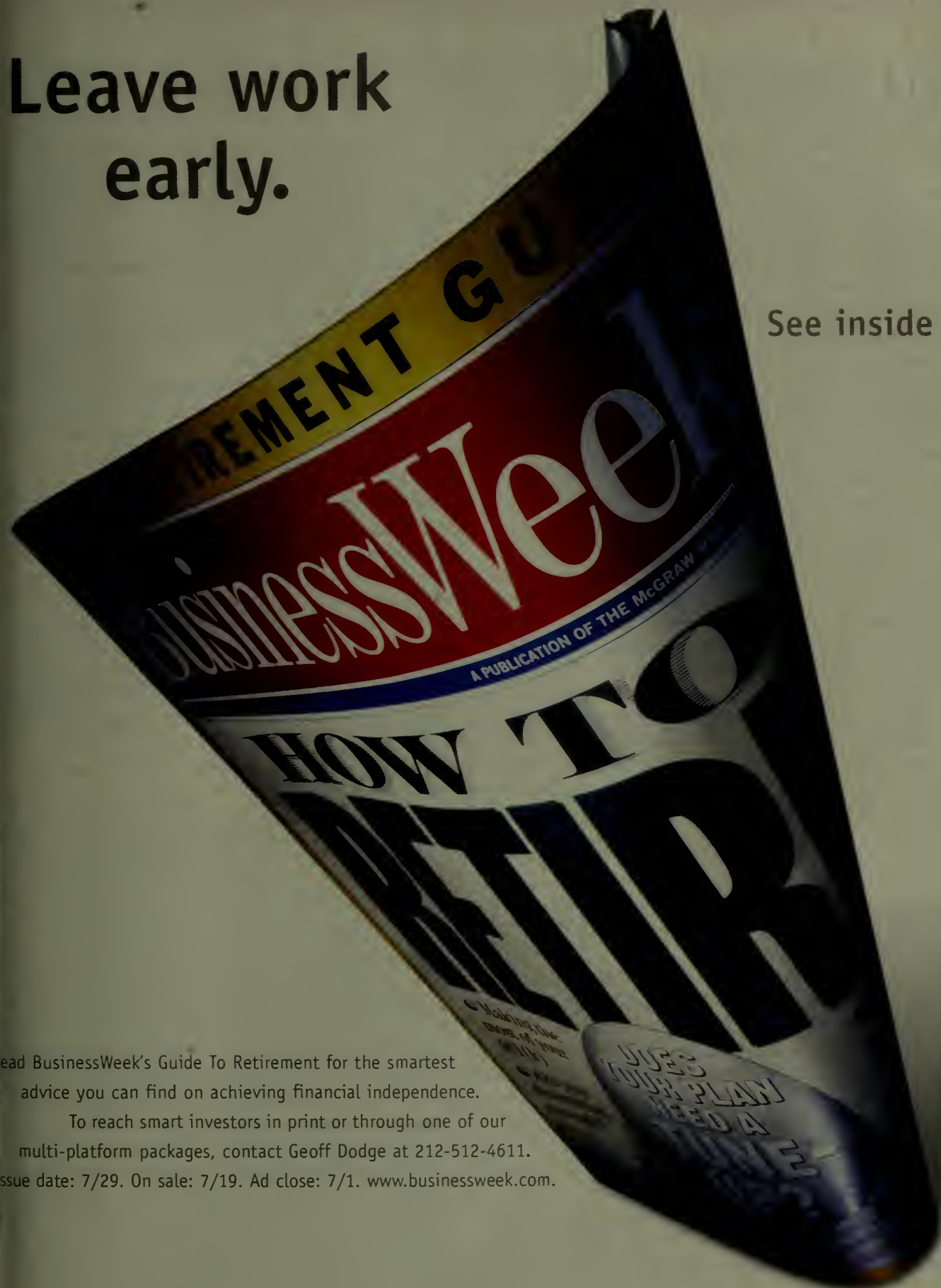
Y

Youbet.com 12

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. Rate \$54.95/year; Canada: CDN \$69/year. Periodicals postage paid at New York, N.Y., and at additional offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales No. 246484. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO 80523.

Leave work
early.

See inside



Read BusinessWeek's Guide To Retirement for the smartest
advice you can find on achieving financial independence.

To reach smart investors in print or through one of our
multi-platform packages, contact Geoff Dodge at 212-512-4611.

Issue date: 7/29. On sale: 7/19. Ad close: 7/1. www.businessweek.com.

A Division of The McGraw-Hill Companies
AOL Keyword: BW

WALL STREET CAN'T SERVE TWO MASTERS

Listen up, Wall Street. It's bad enough that the spreading scandal has inflicted pain on investors who lost billions in telecom and tech stocks. But corruption on Wall Street is damaging the entire U.S. economy, which depends on financial markets to channel capital to deserving companies. It threatens an equity culture based on direct participation by citizens in the risks and rewards of capitalism. And it undermines the core conservative belief that individuals and families can take charge of their lives—including their pensions and social security—and manage them without excessive government help (page 36).

By corrupting analyst research and enabling companies to manipulate earnings during the bubble years, Wall Street contaminated the information flow on which so much of U.S. commerce depends. Sanford I. Weill, chairman and CEO of Citigroup, which owns Salomon Smith Barney; Philip J. Purcell, chairman and CEO of Morgan Stanley Dean Witter; John J. Mack of Credit Suisse First Boston; David H. Komansky, chairman and CEO of Merrill Lynch; and other financial leaders must now step up, recognize the enormity of Wall Street's transgressions, and commit to real solutions before it is too late. Silence and meek apologies are insufficient. Wall Street's corruption is an American crisis.

The Street has traditionally struggled with conflicts of interest. After all, the same institution serves two masters: client companies, for which it raises capital, and investors, whom it advises on placing money. But deregulation and consolidation have given Wall Street firms far more conflicts to deal with in recent years, as investment banking, brokerage, lending, and research have come together under one

roof. The huge fees, commissions, and salaries generated by the tech bubble of 1998-2000 clearly overwhelmed the "Chinese walls" and self-regulatory mechanisms designed to manage these conflicts.

E-mails from within Wall Street make it increasingly clear that in the fat years investors were confounded by misleading information put out by analysts in search of investment banking business. It was the kind of scurrilous "pump and dump" action normally seen in tiny, penny-stock markets. But it hurt millions of Americans who put their children's education funds and retirement savings into "growth" stocks on the advice of brokers.

What's to be done? Efficient markets have always required information to make them work. When a small number of people ran the U.S. economy and invested in equity, reliable data needed to flow to a select few. In a fast-growing, innovation-based New Economy with millions of people engaged in high risk investments, it is critical to get vast amounts of information into the marketplace. Financial statements must be transparent. And research must be honest.

Short-term, heavy fines and penalties should be imposed to punish the worst offenders. After all, Wall Street took in \$1 billion in fees during the three golden years, while investors lost \$4 trillion from declines in high-tech and telecom.

Wall Street must move quickly to manage its conflicts of interest properly, or checks and balances may have to be introduced to contain corrupt behavior. If self-regulatory doesn't come soon, government may have to step in to deconstruct and separate the functions of research, investment banking, lending, and brokerage. The clock is ticking.

DISNEY GETS THE MESSAGE

Corporations seeking guidance on how to govern themselves in the post-Enron world should look at Walt Disney Co. In a dramatic reversal, Disney has gone from having one of the worst boards of directors in Corporate America to having one of the best. Michael Eisner, a reluctant reformer, is now showing other CEOs how to clean up their governance messes while restoring investor trust in the process.

For years, Disney hit the bottom in *BusinessWeek's* "The Best & the Worst Boards" surveys. The Disney board was invariably packed with Eisner pals, to say nothing of the likes of Robert A.M. Stern and former Senator George J. Mitchell, whose architectural and legal firms did work for Disney. The conflicts of interest pushed Disney onto the Worst list year after year.

With oversight from governance guru Ira Millstein, Disney now restricts key audit and compensation committees to independent directors. Outside directors hold meetings away from management, and they are restricted in the number of

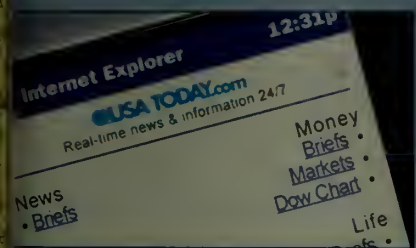
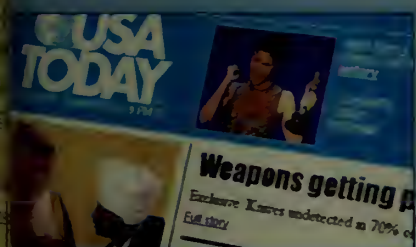
other boards they can sit on. Directors must own at least \$100,000 in company stock, giving them a direct stake in the company's performance. And Disney is cutting all business relationships between board members and the company.

Disney also is bolstering the credibility of its financial reporting by using different firms for auditing and consulting. Disney is no longer repricing options, either. That's up to the managers to take the hit when things go wrong—just as it should be for other shareholders. Eisner's own rich compensation is now more tightly tied to refurbishing Disney's earnings picture.

This kind of board should provide much better oversight of Disney's management and more honestly represent the interests of the company's shareholders. (One of its first tasks should be to ensure that Eisner stop procrastinating and appoint a successor.)

The investor backlash against Enronitis has caused corporate boards everywhere scrambling to avoid liability. What they should be doing is rushing to build credibility. It is as simple as possible. Disney just did it. Better late than never.

WAKE UP



KEEP UP

More than a newspaper, USA TODAY is your information network.

Start your day with USA TODAY for the latest news from here and abroad.

Keep up with the latest news all day long with USATODAY.com. With news, scores, stocks and headlines updated 24/7, USATODAY.com makes it easy to know what's happening as soon as it happens.

Prefer a wireless update?

Get USA TODAY headlines on your PDA.

In print, online and wireless, wake up and keep up with all the news that's important to you with the USA TODAY Information Network.



economy of words.
wealth of information.
usatoday.com



CONSIDER YOURSELF TRAINED.





BusinessWeek

W2

www.businessweek.com

FITS

QUARTER
S FOR
MPANIES

DIT
NCH
ETS HURT

S LEFT?
IN
E?

DPE
OLITICS
KLASH

LTH
EYE
RY:
D
HTS

BOEING'S SECRET

As the company raced to complete its 1997 merger with McDonnell Douglas, it masked an epic production crisis with questionable accounting. In a three-month investigation, *BusinessWeek* has uncovered this hidden chapter in Boeing's history. It's a case study in the difficulty of assessing corporate performance.



FXBBGDD ****CAR-RT 10110020
BRRLP000097 1#302
BURLINGAME
MAY 10 2002
BURLINGAME PUBLIC
10 PRIMROSE RD
BURLINGAME CA
LIBRARY

e.



not here.

THIS IS BEN, THINKING ABOUT CHANGING CAREERS
TO SPEND MORE TIME WITH HIS FAMILY.



MERRILL LYNCH WEALTH MANAGEMENT

Ben Cole has reached the point in his life where he wants to re-evaluate his priorities. With the help of Victor Walker, his Merrill Lynch Financial Advisor, Ben has developed a comprehensive financial plan that includes mortgages, insurance and liquidity strategies. It's a plan that provides the greatest advantage should he lessen his workload. With sophisticated solutions that go beyond stocks, Merrill Lynch is helping Ben change his life for the better. Is your Financial Advisor doing the same?

CONTACT A MERRILL LYNCH FINANCIAL ADVISOR
1-800-MERRILL OR VISIT ASKMERRILL.ML.COM

Depiction: The client's name and story are fictitious and intended to be an illustration of services available through Merrill Lynch. It may not be representative of the experience of every client. Investment results may vary. Consults is a registered trademark of Merrill Lynch & Co., Inc. All mortgage programs are offered and funded by Merrill Lynch Credit Corporation ("MLCC") or an affiliated company, Jacksonville, FL. Equal housing lender. © 2002 Merrill Lynch, Pierce, Fenner & Smith Incorporated. Member, SIPC.

THIS IS HIS MONEY, SUPPORTING
HIS DECISION FINANCIALLY.

BEN COLE'S
MERRILL LYNCH:

A COMPREHENSIVE FINANCIAL PLAN
CUSTOMIZED TO HELP MEET HIS
FINANCIAL NEEDS, INCLUDING:

- CASH FLOW AND ASSET
ALLOCATION ANALYSIS TO HELP
DEVELOP INCOME-GENERATING
STRATEGIES
- MERRILL LYNCH CONSULTS,
LEADING MONEY MANAGERS
BUILD CUSTOMIZED PORTFOLIOS
FOR BEN BASED ON HIS
INVESTMENT OBJECTIVES
- 401(K) ROLLOVER NEEDS
- INSURANCE AND ANNUITIES
- SECURITIES-BASED CREDIT AND
MORTGAGES
- TAX MINIMIZATION STRATEGIES
- 529 COLLEGE SAVINGS PLANS
- TRUST AND ESTATE PLANNING
STRATEGIES WORKING WITH
BEN'S OWN LAWYER AND
ACCOUNTANT

Merrill Lynch Financial Advisor
Victor Walker



BULLISH on AMERICA

Life.

Covered by Allianz Group.



Wherever you are, whenever you
need us, the Allianz Group is
always there for you.

Life both precious and fragile needs to be protected as well
as to be allowed to flourish. The Allianz Group as one of
the world's leading insurers has always been the partner
for a secure future. With our experience all around the
globe we have learned how to turn risks due to social
change into individual opportunities. This, of course, is only
possible with the know-how and financial backing of a truly
global leader. **Allianz. The Power Beside You.**



Allianz Group. Europe's leading global insurer
and provider of financial services.



Sun ONE
Developer Tools
Sun ONE
Application Server
Sun ONE
Integration Server

The fastest road
to maximizing
productivity and the
speed of development.

On the road to Web services,
**the fastest route
is always the one
with the fewest
roadblocks.**

Sun™ ONE

Open Net Environment

Reports from the road: CB Richard Ellis.

Sun ONE Application Server in the J2EE development environment enabled CB Richard Ellis to maximize IT resources by allowing for simultaneous development, testing and production deployment for their package-tracking Web site, all on the same system.

Sun's associates for the ride.

Sun teams with some of the best systems integrators in the business providing the knowledge and experience you need to develop new "Services on Demand" using Sun ONE Developer Tools for Java and Sun ONE Application Server today: Cap Gemini Ernst & Young, Deloitte Consulting, EDS, KPMG Consulting, Inc., PricewaterhouseCoopers and Science Applications International Corporation.

Get a \$700 discount when you purchase
Sun ONE Developer Tools for Java.*

www.sun.com/toolkit

Offer expires August 6, 2002.

Put your development into high gear with Sun™ ONE Developer Tools and Sun ONE Application Server.

Once you set your directory strategy, you're ready to get started developing services that your customers need and the faster you do it, the sooner you'll start seeing returns. Sun™ ONE Developer Tools for Java™ and Sun ONE Application Server are integrated to work

well together, so you can quicken development and speed time to market. And since the Sun ONE Application Server is built on open standards (it's completely J2EE™ compliant), it provides maximum interoperability, allowing for real choice in the technologies you use.



*Limited time only: Java 2 Platform, Enterprise Edition, Release 3.0.



NEW OPERATOR
David Dorman aims
to take AT&T
upmarket page 130



BusinessWeek

MAY 20, 2002

Cover Story

110 BOEING'S SECRET

In 1997, while the aerospace giant was trying to wrap up its merger with McDonnell Douglas, it had a massive production breakdown. News of the snafu could have slammed Boeing stock—and scuttled the deal. The story of how Boeing kept its mess secret for several critical months has never been made public. *BusinessWeek* has reconstructed this hidden chapter in Boeing's history—and analyzed its current implications

120 AND WHERE WERE THE AUDITORS?

Deloitte & Touche had limited power to force Boeing to make disclosures

News: Analysis & Commentary

32 MURDER IN THE NETHERLANDS

Fortuyn's death is a symptom—the disease is a new xenophobia and corrosion of public life tearing across the Continent

34 COMMENTARY: EUROPE

It's going through an explosive identity crisis

36 THE STATES GET TOUGH

Regulators are stepping in where Washington fears to tread

38 DETROIT CAN'T BREATHE EASILY

A California bill gives tougher clean-air standards another chance

40 COMMENTARY: WALL STREET

The SEC's proposals to end analysts' conflicts don't go far enough

42 YOU'LL PROBABLY GET A RAISE

Despite rising unemployment, workers' wages are holding up

44 THE GREENBACK'S SETBACK

Continued weakness? Maybe. Outright free fall? Not likely

45 HP: HOW LONG A HONEYMOON?

Despite all the cheers, the happy couple is facing a rough road

46 COMMENTARY: ENRON

Why not create an award, the Enron, for future scofflaws?

48 COMMENTARY: PROXY VOTES

Requiring a supermajority is too high a hurdle for shareholders

50 IN BUSINESS THIS WEEK

International Business

56 GERMANY: DEUTSCHE BANK

Will incoming CEO Josef Ackermann get the bank in gear?

57 FRANCE: VIVENDI

As the stock slumps, CEO looks increasingly boxed in

58 COMMENTARY: JAPAN

Japanese execs are learning from Nissan's Carlos Ghosn

Economic Analysis

26 ECONOMIC VIEWPOINT: KU

What's wrong with AT&T-C

28 ECONOMIC TRENDS

How to improve public-school efficiency, a decline in foreign ventures, manageable corporate debt loads

29 BUSINESS OUTLOOK

U.S.: Look for job growth
Italy: Uncertainty on the horizon

60 COMMENTARY: SAVINGS

Why the U.S.'s skimpy savings rate is no big deal

Government

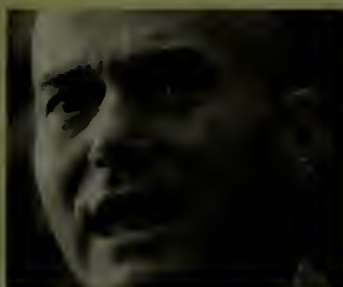
55 WASHINGTON OUTLOOK

Gore in '04: Big rocks on the campaign trail

62 MR. SOFT MONEY AND THE

Can Terry McAuliffe crank up party's cash machine?

ER STORY
G'S SECRET
 umbers game
 umbo merger
 lead
 IS? page 110



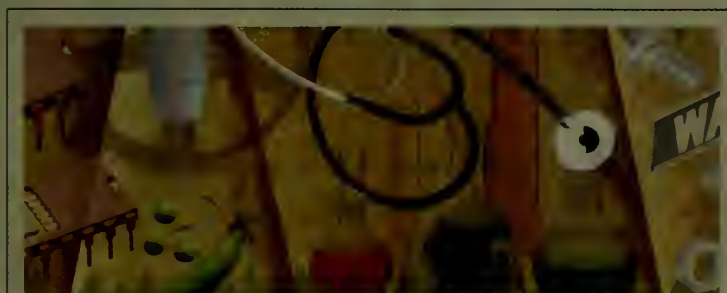
DUTCH SHOCKER
 Fortuyn's murder:
 The message for
 Europe page 32



EYE WORRY
 Laser surgery:
 Watch out for the
 risks page 140



BORING TIDE
 bor shortage
 e a surplus
 e long page 126



TOMORROW IS ANOTHER DAY
 First-quarter corporate profits didn't carry
 much of a kick page 86



DRY WELL
 Banks are tightening
 the loan spigot
 page 122

QUIET GURU WITH BIG CLOUT
 titutional Shareholder Services'
 ie Heard has a huge impact on
 outcome of proxy fights

Rate Scoreboard

WATER LUCK NEXT QUARTER?
 ne companies, mainly consumer-
 ed ones, saw profits climb. But
 st will have to wait a while
MARGINS MAY MOVE HIGHER
 bor savings could do the trick
PHABETICAL LIST OF COMPANIES

ROUGHT IN CORPORATE LOANS
 all companies are getting shut
 as banks pull back their
 ling. And big ones are facing
 her borrowing costs
NEW RULES OF ACCOUNTING
 e Financial Accounting
 ndards Board has begun to
 rite the book on bookkeeping
ANGER IN THE BOND MARKETS
 ave of mortgage refinancings
 d spell disaster for investors

Social Issues

126 THE COMING LABOR CRUNCH
 A demographic dearth of workers
 means companies will soon have to
 be a lot more accommodating

Information Technology

24 WILDSTROM: TECHNOLOGY & YOU
 Sony's Clié handheld focuses on fun
130 NEW HONCHO. NEW AT&T?
 Even with the upcoming sale of the
 cable-TV unit, David Dorman's big
 plans may not save the phone giant

Science & Technology

132 COMMENTARY: DRUGMAKERS
 How the pharmaceuticals industry
 can help the newly cautious FDA
 improve the approval process

Sports Business

133 THE PGA: WHERE'S THE GREEN?
 This year's tour is booked, but
 finding sponsors for 2003 is a
 trickier proposition

BusinessWeek Investor

140 A CLOSER LOOK AT EYE SURGERY
 As the number of laser corrections
 grows, so do post-op complications
142 HOW TO SPOT TAX TINKERING
 Those profits may not be what
 they seem
146 RAISING YOUR B-SCHOOL ODDS
 If your first choice turned you down,
 have another, smarter go at it
148 HERS: TODDI GUTNER
 A guide to figuring out whether
 you should you take that buyout
 package your company is offering
150 THE BARKER PORTFOLIO
 Maybe Tyco's Dennis Kozlowski
 hasn't run out of ideas after all
151 MARCIAL: INSIDE WALL STREET

Features

12 UP FRONT
18 BOOKS
22 READERS REPORT
152 FIGURES OF THE WEEK
154 INDEX TO COMPANIES
156 EDITORIALS

BusinessWeek online

www.businessweek.com
 America Online Keyword: BW

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ CONSCIENCE PLAYS:

The Net makes socially responsible investing easier, says BW's Susan Scherreik



■ SIZING UP SOFTWARE:

Sensing an info-tech spending uptick coming soon, S&P analyst Jonathan Rudy names his top picks



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your handheld! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the May 20, 2002, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/02_20/online.htm

Telecom's New Shape

"Merge, buy, or die" is the industry's slogan these days. Although even the strongest players carry enough debt to make them questionable suitors, sweeping consolidation seems inevitable



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Street Wise: Reebok's poor performance in the U.S. sneaker market may cut into its sports apparel prospects



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Street Wise: Microsoft's stock is now at a level that could appeal investors who believe the giant can thrive in a post-PC world

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

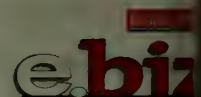
Q&A: How Burt's Bees went from bake-sale stall to multimillion-dollar business



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Closeup: Can Darren Thomas make Zambeel's innovative data-storage technology fly?



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

B-School News: A University of Maryland ethics course brings execs face-to-face with inmates doing time for white-collar crime

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Power Lunch: Recent setbacks don't mean U.S. media mogul John Malone has given up his vision of a global empire

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Leader's Edge: Companies that are easy to do business with are the big winners. Here's how to make sure your company "gets it"



FLEXIBLE.

In a volatile energy market, our unique
business model allows us
to bend, but not break.

At TXU, we've developed a business model that lets us manage everything from production to trading to retail. With this strategy we'll be able to capitalize on the rapidly changing energy markets while still protecting ourselves from vulnerability. We've invested in our future, and now is a good time for you to do the same. For more information call 1-800-828-0812 or visit us at www.txu.com.



Up Front

EDITED BY
SHERIDAN PRASSO

ANDERSEN ACCOUNTS

A GOLDEN OFF-RAMP

THE BLACK MARK OF Enron doesn't seem to be affecting partners leaving Arthur Andersen for other big accounting firms. For the 75% of Andersen partners with new job offers—some 1,300 people, according to those working to broker their deals—there doesn't seem to be any sort of taint discount whatsoever.

Offers include pay on par with their new colleagues—an estimated \$500,000 a year—plus the ability to bring along eight to 13 staff. Some Andersen alumni are even getting bonuses of hundreds of thousands of dollars to make up for part or all of the partnership equity they leave behind. Andersen did not return calls seeking comment.

Key to the soft landing is Andersen's willingness to let

partners out of noncompete agreements, in which partners promise not to solicit Andersen clients for 18 months after leaving. Hiring firms are paying Andersen compensation of up to \$100,000 per partner, leaving them free to bring along old clients. Often, hiring firms are paying off leases, and buying office furniture, for about \$200,000 a partner. That's cheap compared with the usual practice, where the hiring firm pays one to two times the partner's annual revenue. With Andersen's average large-client partner billing up to \$2.5 million a year, that's quite a win for the new team. *Nanette Byrnes*

NEW YORK, NEW YORK

GIVE MY REGRETS TO BROADWAY

BROADWAY THEATER LOOKED like one of the big successes of New York's post-September 11 comeback. Thanks to aggressive marketing and help from the city, ticket sales that fell immediately after the attack rebounded over the winter.

But this spring is another story. Sales dropped 4.2% for the week of May 5, to \$13.6 million, over the year-earlier period. In April's final three

weeks, sales were down 12.5% over 2001. Advance sales—crucial to profitability because they're often full-price—are off, too. "It's been a bloodbath on Broadway," says a spokesman for Cameron Mackintosh International, producers of such shows as *Les Misérables* and *Oklahoma!*

Chalk it up to a lack of tourists and few must-see shows. One big draw, *The Producers*, saw its big-name stars, Nathan Lane and Matthew Broderick, depart in March. "Although New Yorkers have done a great job filling in, that's not going to go on forever," says League of American Theaters & Producers President Jed Bernstein. One bright spot: Recent Tony nominations could help put Broadway back in lights.

Kimberly Weisul

TALK SHOW "Enron gets paid for moving energy to relieve congestion without actually moving any energy or relieving any congestion."

—Memo written by Enron lawyers in December, 2001

OFF THE RACK

NIKE'S FEET OF CLAY

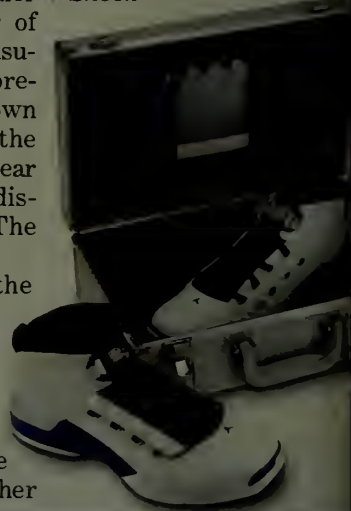
FOR 15 YEARS, NIKE'S AIR Jordans have been tops in basketball shoes. Kids even killed over them.

But the latest version, released in February, seems to be an air ball. Managers at Foot Locker stores around the U.S. say inventories remain high, and a ranking of all Nike shoes sold puts new Air Jordans in 18th place, below even Nike baseball cleats. "The Jordan XVII did worse than any other recent Jordan release," says Florida dealer Steve Mullholand, owner of InStyleShoes.com, which usually sells hot shoes at a premium but is marking down Air Jordans 40%. Adds the owner of Sneaker World near Philadelphia, which is discounting them 25%: "The shoe was a bomb."

The reason? Partly, the \$200 price tag, up at least 25% from last year. Young men who usually buy Air Jordans are instead spending \$125 on Allen Iverson's shoe, the Reebok Answer 5, or other

non-endorsed Nikes for to \$90. Even with a padded metal briefcase and CD explaining the design, \$200 is too steep for an aging star's name. "Kids are saying shoe-industry and John Shanley of Wells Fargo Bank. "They know they're being taken advantage of."

Nike, however, claims to be pleased with sales. Says the Air Jordan brand (4% of 2001 revenues) doesn't have a big impact on the bottom line. Still, mediocrity may be fitting. Michael Jordan's second return to the NBA, after all, was less triumphant. *David Shook*



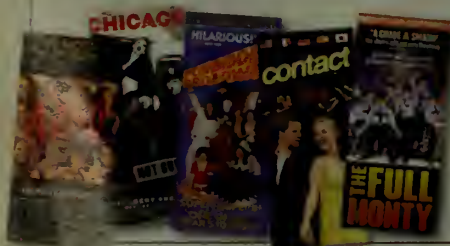
THE LIST JUDGING THE COURTS



Corporate lawyers say class actions proceed more smoothly in Delaware than in any other state. Texas—where suits against Enron are being filed—is rated a lowly 46th.

BEST STATES	DELAWARE	Ranked first in every area, from tort litigation to class action
	VIRGINIA	Rated highly for handling of scientific evidence, discovery process
	WASHINGTON	Scored well in treatment of class actions and judges' competence
WORST STATES	ALABAMA	Scored poorly on jury predictability
	WEST VIRGINIA	Deemed a slow issuer of summary judgments and dismissals
	MISSISSIPPI	Ranked last on 8 out of 10 measures including judge and jury competence

Data: U.S. Chamber of Commerce, Harris Interactive



For electronics customers
Team of the next frontier

A GPS for your cell phone. A chip that's 10x faster.
A hand-held more powerful than today's super computers.
Whatever the next big innovation is, Agilent will be
there, accelerating the process every step of the way.
With everything from test and measurement equipment
to components that help our customers go from concept
to reality quickly. Maximizing profitability in the process.
It's all a race against time. A race that Agilent's
customers are winning.



Agilent Technologies

dreams made real

FORTUNE
100 BEST
COMPANIES
TO WORK FOR 2002

Agilent Technologies

Up Front

HEDGE CITY

FANCY FUNDS, BUT FLAT RETURNS

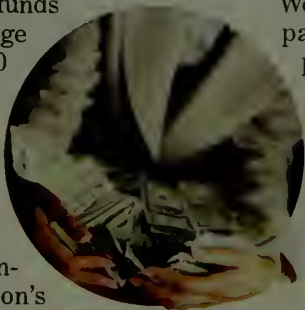
WHAT'S HOTTER THAN A hedge fund? A hedge fund that invests in other hedge funds. So-called funds of funds are in huge demand. The \$500 billion hedge-fund industry got \$86 billion in fresh cash last year, twice as much as in 2000, and fund of fund managers got the lion's share of the new money.

But here's the rub: These funds were among the worst-performing hedge-fund groups last year, up an average of just 2.8%, according to Hedge Fund Research Inc. (HFRI). By comparison, the

average hedge fund, as measured by the HFRI Composite Weighted Index, gained 4.6%. Flat first-quarter returns, on par with the Standard & Poor's 500-stock index, hardly seem worth the hullabaloo.

Worse, investors are paying a pretty penny for the bum steer. Hedge funds typically charge 1% of assets, plus 20% of profits. However, funds of funds charge their investors an additional 1% to 2% fee.

A recent survey conducted by TMP Worldwide Executive Search found that their managers get fat paychecks, too: an average of \$1.3 million last year. Nice work if you can get it. *Mara Der Hovanessian*



VESTED INTERESTS

THREE CEOs WHO NEED TO TAKE STOCK

MANY COMPANIES REQUIRE their CEOs to own a certain number of shares, figuring that having a big stake keeps execs acting in shareholders' interests. But in scrutinizing more than 70 companies, we found three CEOs who appear to be breaking the rules:

■ George Harad at Boise Cascade, the paper-products maker. Rules require him to own nearly 86,000 shares, but after eight years as CEO, he has accumulated only 3,511. In that time, he has exercised 300,000 options for \$3.4 million. A Boise spokesman says that when Harad's remaining options are counted, he exceeds the requirement.

■ Leo Mullin at Delta Air Lines. With fewer than 39,000 shares to his name, he is far short of the required 111,000. Until Delta's plunging stock price drove his options underwater, he had plenty of chances to up his stake, but passed. A Delta spokesman says Mullin has until September, 2003, to come into

compliance. Unlike Boise, Delta doesn't count options toward the requirement.

■ James Farrell at Illinois Tool Works. He owns fewer than 23,000 shares, but 66,000 are required. He has \$25 million in unexercised options. A spokesman says those options would put him in compliance.

Governance experts say that for stock ownership to link CEOs' interests with shareholders', options should not be counted. *Louis Lavelle*

DRAWN & QUARTERED



CANDYLAND CHRONICLES

DOWN AT THE CONVENIENCE STORE: WAR!

WHILE HERSHEY FOODS'S CEO Richard Lenny is in the midst of a public brawl with the company's unions, he has also been ruffling feathers in the industry. The result: the start of what could be a price war in candyland.

Since taking the helm at Hershey in March, 2001, Lenny has worked to expand in convenience stores such as 7-Eleven and Circle K. There, candy bars reap higher margins than those sold in bags at the supermarket. Lenny hired more sales reps and is hoping new Hershey products, like the Reese's FastBreak bar launched late last year, will help it grab even more shelf space than it has already.

That isn't sitting well with rivals Nestlé and Mars, whose price per pound for Nestlé's candy bars fell nearly 10% in the first three months of 2002 over the same period a year earlier, according to



FRONT: Hershey rallies for a

formation Resources. Mars and Hershey's prices went down 1.9% and 1.5%, respectively. A Mars spokeswoman says the company hasn't cut prices and says the drop is due to other factors, possibly discounts or promotions by retailers. Nestlé declined to comment. A Hershey spokesman says the company has offered

promotions on some individual candy bars— in response to "heightened competitive activity"— to offset that with increased sales on products such as Kisses.

If price cuts continue, it could hurt overall growth. Bad news for investors— but good news for consumers looking for sweet deals. *Amy E.*

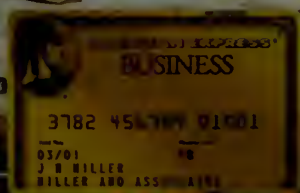
THE BIG PICTURE

TOP ONLINE ADVERTISERS

The biggest online advertisers are a varied crowd:



Polls, surveys, and other items for this section should be sent to upfront@businessweek.com



**HOW MANY CHECKS DID YOUR
BUSINESS WRITE LAST YEAR?**

**AND HOW MANY REWARDS POINTS
DID THEY GIVE YOU FOR THAT?**

MEMBERSHIP REWARDS POINTS

FLEXIBLE PAYMENT OPTIONS

NO PRE-SET SPENDING LIMIT

**THE BUSINESS GOLD CARD, FOR
ALL YOUR BUSINESS PURCHASES.
CALL 1-800-NOW-OPEN.**

OPEN

SMALL BUSINESS NETWORK™

We develop life-saving therapeutic proteins.

So that challenging situations h

Many people are confronted with critical health situations in the course of their lives. In those moments, doctors need to rely on therapies that significantly increase the chance for survival. At Aventis, one of the world's leading pharmaceutical companies for plasma-derived and recombinant proteins, we offer a comprehensive line of products that make the difference in life-and-death situations. Our many years of experience and our network of plasma donation centers help to ensure the effectiveness and safety of our products. Our researchers continue to develop innovative therapeutic proteins for intensive and emergency care – so that more people can survive life's critical situations.

Aventis, Strasbourg (France), is listed on the stock exchanges in Paris, Frankfurt and New York. www.aventis.com



Happy endings.



Our Challenge is Life



CONFESSIONS OF A STREET ADDICT

By James J. Cramer
Simon & Schuster • 339pp • \$26

TRADING WITH THE ENEMY

By Nicholas W. Maier
HarperBusiness • 192pp • \$22.95

BRILLIANT STOCKPICKER —OR BRAZEN HUSTLER?

It's hard to be James J. Cramer. For the journalist-turned-hedge-fund-manager/journalist turned high-decibel television pundit, life is a series of crises, all of them well- and self-publicized. It is a life of highs and lows, all of them severe. Life means no days off for years on end. Life is insecure. "You don't get tenure in the hedge-fund game, no matter how many times you beat the market," says Cramer. And he has beaten the market many times, as he does not tire of telling us in *Confessions of a Street Addict*, the entertaining tale of his rise to fame as a media and investment celebrity.

But for Cramer, success has been accompanied by a succession of misfortunes. He was investigated, and cleared, by the Securities & Exchange Commission for writing about stocks he owned. His otherwise excellent record was hurt by the market tumult of 1998. And now, just as his book hits the bookshops, an ex-employee named Nicholas W. Maier is trying to steal some of *Confession's* thunder in a tell-all account, *Trading with the Enemy: Seduction and Betrayal on Jim Cramer's Wall Street*.

The "enemy" in Maier's title is the way Cramer allegedly referred to everybody outside the offices of Cramer, Berkowitz & Co. That's the Cramer-run hedge fund where Maier toiled until Cramer fired him in 1998, either in a fit of irrational rage or for incompetence—one of the numerous points on which the Maier and Cramer stories disagree.

That there is even one account of these events, much less two, is something historians will ponder in future years. How could society reach a point where the actions of a moderately successful, middle-aged hedge-fund manager are considered so important? What, if anything, does this tell us about U.S. culture?

Perhaps it says that anything con-

cerning the late, widely lamented bull market is fascinating. And, to be fair, so is Cramer—in a self-indulgent, hubris-filled way. In a sense, *Confessions* is a 339-page version of the column that Cramer churns out for TheStreet.com, his red-ink-plagued financial-news Web site. Cramer is a good storyteller, and the tale of his rise from penniless newspaper reporter to e-media mogul is, for the most part, a good read.

As an autobiographer, Cramer is not exactly mired in introspection. He skips quickly over the first two decades of his life, except to recount his childhood fascination with stocks. By page 3, he is already at Harvard University, where he is "unrelentingly competitive. Mindlessly competitive." (No kidding.) At the *Los Angeles Herald-Examiner*, where he toils as a poorly paid reporter, we meet an editor who treats him badly—a recurrent motif in this book. He moves swiftly through the training program at Goldman, Sachs & Co. before tackling the real meat—the tale of how he began to make money. That happened shortly after he left Goldman, where his career was ruined by an indiscreet interview he gave to a reporter (who, he insists, treated him badly).

Cramer began by managing money for Martin Peretz, publisher of *The New Republic*, to which Cramer had contributed. He then opened a hedge fund, Cramer Partners, where he developed a special approach to earning money. He describes this method with such candor that some readers may be taken aback. After all, controversy is now swirling around analysts. And they

were at the core of Cramer's "for for making money every single day in and day out." As developed in early '90s, the system consisted of coming "merchants of the b Cramer writes: "We would wor get upgrades or downgrades bec we knew, cynically, that Wall S was simply a promotion machine."

Cramer would look for stocks l to move quickly on good news. one of his staffers would begin c the companies, looking "to find any good we could say about them." V he discovered a stock that seemed to take off, or when his staff uncov something favorable about the com that the analyst community didn't k

Cramer would load t options and stock then "give the good to our favorite ana who liked the stoc they could go do promotion." That w get the buzz going, "we would then be to liquidate the pos into the buzz for a h some profit."

In other w Cramer used his pa the analyst commu engage in a kind of pump-and-dump sch

Part of what makes his account pelling is that Cramer is so matte fact, even proud. He sees absol nothing wrong or unfair about the tice. In fact, at one point he says he sees himself as "the proverbial Scout, never breaking any laws, r even getting a parking ticket," a who had "nightmares about overdr brary books. I was Little Miss G Two-shoes." Nope, introspection is his strong point.

Admissions such as this, and th culiar brand of ethics they reveal, ate a surprising common groun tween Cramer's book and the de flawed *Trading with the En* Maier's superficial account of life Jim Cramer. It's easy to dismiss M book as the revenge of a disgru former employee. But reading it in dem with *Confessions* gives per tive to both books.

Maier certainly belongs on the list of people who have treated Cr



CRAMER AND A TRADER HE FIRED OFFER DUELING ACCOUNTS OF HIS CAREER

BARCLAYS

HSBC Republic 

La vache qui rit



Moody's Interbank Credit
Service Ltd

GENERALI
INTERNATIONAL

REUTERS 

gsk
GlaxoSmithKline

Johnson
A FAMILY COMPANY

CREDIT SUISSE | FIRST
BOSTON

SIEMENS
Lands & Streets Division

KARDEX

Amdocs

CI CAPITAL
Intelligence

AgrEvo

NCR

MSD

Royal Skandia

Raychem

Roche

SG

BNP PARIBAS
BNPI

AFP

Organon

LONDON FORFAITING
CYPRUS LTD

Bull

JCB



- Strategically located with convenient regional and international air links.
- Excellent telecommunications - direct dialling to over 200 countries.
- Thirty-two double tax treaties covering 40 countries.
- Highly qualified bilingual staff and very competitive operating costs.
- A pleasant environment including one of the lowest crime rates in Europe.

CYPRUS
Europe's Business Island

If you want to know more about Cyprus contact  CENTRAL BANK OF CYPRUS, International Division

P.O. Box 25529 • CY-1395 Nicosia • Cyprus • Tel: + 357 22 714225 (8.00 a.m. - 2.00 p.m. Cyprus time) • Fax: + 357 22 378164 • E-mail: info@centralbank.gov.cy • Web: <http://www.centralbank.gov.cy>

badly. The ex-trader's book is essentially a hatchet job. And at just 192 large-type pages, it is thin. But *Trading* does contain some riveting anecdotes that are not unlike Cramer's own. In one, Cramer allegedly sends Maier to an analysts' meeting to ask nasty questions of a corporate executive. The questions supposedly drive down this company's share price—to the benefit of Cramer, who was shorting the stock. Cramer's lawyer categorically denies all of the unflattering tales in Maier's book, including this one. But the incident certainly sounds a heck of a lot like the analyst-influencing campaign of which Cramer boasts in his account. If anything, it's less repulsive.

Trading has generated quite a bit of pre-publication buzz, although not of the kind that most authors would enjoy. Shortly after the book was sent to the stores, the publisher sent out an errata notice, and the remaining inventory was pulped. The book was then reissued with one page removed. In the page now excised, Maier accused Cramer of engaging in trading on inside information from an executive of a company called Western Digital Corp. Oops.

That happened to be Maier's most serious accusation, and according to publisher HarperCollins, it was not true. But the publisher's retraction was not quite as sweeping as Cramer might have liked. HarperCollins says the only inaccuracy was the specific reference to Western Digital, which the new version of Maier's book doesn't mention. But the revised book does say that Cramer was the subject of an SEC inquiry, later dropped, concerning trading in options of an unspecified stock. "Our timing on this occasion may have been too perfect," Maier says in the post-pulping version. A call to Cramer was referred to his lawyer, who says both versions are inaccurate, and that there was no SEC inquiry at all.

In a statement, Cramer asserts that the book "quotes me as saying outrageous things I never said (and would never say), meeting with people I never met, and being the subject of investigations that never occurred. The book contains page after page after page of lies and innuendo." Another lie, according to his attorney, is the assertion that Cramer took a large position in a stock after getting a tele-

phone call from CNBC's David Faber—implying that the journalist gave him some kind of advance information. CNBC says Faber has "the utmost integrity and any allegations otherwise are completely without merit."

HarperCollins says it stands by the current version of Maier's book. And although the book's reputation has been damaged, the fact that it hasn't lost all credibility is a comment on the two volumes' similarities. They seem to provide contrasting views of the tendency to push the envelope of Wall Street ethics.

One compelling contrast is the Maier-vs.-Cramer versions of a February, 1995, controversy about a column by Cramer in *SmartMoney* magazine describing "four little orphans we love and why we love them." Stocks of the four companies climbed after the column appeared. In his book, Maier writes: "The one thing Jim neglected to mention was that he

not only liked these orphans, but had already adopted them. Cramer & Company owned huge slugs of each." At the time, according to Maier, Cramer was telling people at his hedge fund that he thought the stocks were "worthless losers" and "pieces of s-t."

In Cramer's version of this story, the orphans were "tiny stocks that I thought represented value because they weren't being promoted or sponsored." Maier says that Cramer told his partners that he would have sold the stocks after the runup had an article not appeared in *The Washington Post* disclosing his interest in them. Cramer contends in his book that he had no intention of selling.

An SEC investigation ensued, and Cramer was eventually cleared because, among other things, *SmartMoney* neglected to include a disclaimer saying that Cramer might own shares in stocks mentioned in his column. But Cramer reports bitterly that several prominent journalists castigated him for his behavior—thus joining the long list of people who didn't treat him right.

But that's O.K. Cramer has had the last word—unless, of course, yet another book appears on the life and times of James Cramer. Alas, we are helpless to stop that from happening. But we can always pray.

BY GARY WEISS

Weiss covers Wall Street.

TRADING WITH THE ENEMY

Nicholas W. Maier

SEDUCTION AND BETRAYAL
ON JIM CRAMER'S
WALL STREET



EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS: Joyce Barnathan, Frank J. Comes, Robert J. Dowling, G. David
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Neil G. Kuntz, Jeffrey M. Laderman, Christopher Power, Kathy Reilly, A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Wall Street Journal), Elizabeth Weiner
SENIOR WRITERS: Catherine Arnst, Robert Barker, Aaron Anthony Bianco, John A. Byrne, Peter Elstrom, Gene G. Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Outlook ed.), James Mehring, Margaret Popper, William Seymour Zucker (Sr. contributing eds.), Christopher Fari Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.), M. Serrill (Sr. ed.), Robin Ajello, Pete Engardio, (Sr. news ed.), Brady (Sr. writer), Cristina Lindblad (Europe), John Koppi (finance)
ASSOCIATE EDITORS: Dan Beucke, Diane Brady, Nanette Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Gerry Khermouch, Julia Lichtblau, Robert McNatt, Ira S. Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: Olay E-Business: Timothy J. Mullaney. Finance & Banking: Emily Heather Timmons. Industries: Adam Aston. Internet: Spencer Heather Green. Management: Louis Lavelle. Markets & Investments: Der Hovanesian. Media: Tom Lowy. News: John Protos. Personal Finance: Carol Marie Cropper. Susan Scholten Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Up Front: Sheridan Prasso (Sr. news ed.), W. Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports business)
STAFF EDITORS: Lewis Braham, Jeanette Brown, Jennifer Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller chiefs; Jim Taibi (Asst. chief); Tim Belknap, Aleta Davies, (Sr.); Giles Blunt, Joy Katz, Barry Maggs, Anne Newman, David Malka Percal, Monica Roman, Lourdes Valeriano. Research: Chapin, Gail Fowler, Aida Rosano
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keat J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. d. Cruickshank, Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.). Olaner (Director); Rob Doyle (Deputy dir.); Laurel Dauris, Calvillo, Roger Kenny, Stephen Kenny, Alberto Mena, Ray Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Nita Michiel, Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne Kathleen Moore, Andrew Popper, (Assoc.); Lucy Conticello, Sarah Morse (Asst.); M. Margarita Elroa (Traffic mgr.); Burt Hughes Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Lockwood (Mgr.). Karen Butcher, Francisco Cardoza, Thomas Stephen R. Lebron, Kim Maenak, Jose L. Martin, Peter K. Nicell, M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.).
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Y. S. Ari, Steven McCarthy, Anoop Srivastava, Craig Sturges, Mauro ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative Peter Clem, John A. Dierdorff, John Johnsrud; Will Andrews Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Tony Cracoc Franklin, Brian Hinde, Brian Kelly, Olga Kharif, B. Kite, M. Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Amy Joshua Tanzer, Amy Tsao, Kathy Vuksanaj, Eric Wahlgren, Hees
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Had Pascual. Boston: William C. Symonds (Mgr.), Faith Keenan. Smith. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy Michael Arndt (Sr. correspondent), Robert Berner, Julie Forst Gogoi, Darnell Little. Dallas: Wendy Zellner (Mgr.), Stephanie Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), Joann Mul Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, C. Palmeri (Sr. correspondents); Arlene Weintraub. Philadelphia: An (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Hof (Mgr.), Linda Himelstein (Sr. correspondent), Peter Burn Edwards, Ben Elgin, Joan O.C. Hamilton, Jim Kerstetter. Lo Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); F (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McN. correspondents); Amy Boruss, Dan Carney, Laura Cohn, Stan O. Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & News Woellert, Catherine Yang. Douglas Harbrecht (Online: Sr. you Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bomba Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico: Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossa Stephen Baker, Carol Matlack, Andy Reinhardt. Rome: Gail Ed (Mgr.). Seoul: Moon Ihlwan. Singapore: Michael Shan (Mgr.). To Bremner (Mgr.) Robert Neff (Contrib. ed.), Chester Dawson, Irene
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Barbara Boynton. Communications: Robert Pondiscio (Director) Carpenter, Christine Fountaine, Andrew Palladino, Nancy Information Services: Jamie B. Russell (Director), Susann (Research mgr.), John Cady (Technology mgr.), Fred Katzenbe Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Rep Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Chief: Christine Summerson

SHARP

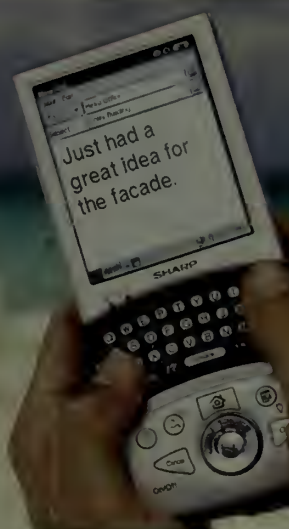
Personal mobile tool

*Zaurus*TM



be brilliant

©2002 Sharp Corporation



Introducing Zaurus, the smart new mobile tool from Sharp. Wireless enabled,* with powerful PC computing and multimedia capabilities. A unique integrated keyboard and the added freedom of the Linux operating system. Zaurus by Sharp. It's everything you need to be mobile. sharpusa.com

*Internet applications require purchase of a modem and available service. Screen image simulated.

be sharpTM

Readers Report

LET'S NOT BENCH TYCO'S STAR QUARTERBACK

William C. Symonds' commentary on L. Dennis Kozlowski, "Tyco's CEO: Time to walk the plank" (News: Analysis & Commentary, May 13), utilizes techniques of Monday-morning quarterbacking that do an overwhelming disservice to readers who are attempting to assess fairly a highly successful chief executive maneuvering his company during an important juncture. In the interest of fairness, some clarifications are in order.

Symonds states that Kozlowski "appeared to transform an obscure industrial conglomerate into a powerhouse." The fact is that Mr. Kozlowski did turn a \$3 billion cyclical manufacturer in 1992 into a \$36 billion global conglomerate in fiscal 2001 with solid businesses making world-class products depended upon by millions of households and businesses around the world. It is important to note that most of Mr. Kozlowski's 26-year career at Tyco International Inc. was spent running businesses and developing organic growth in highly competitive markets.

Symonds states that Tyco is "wildly zigzagging" since the breakup plan. The fact is that Tyco was and is still being advised by the best and the brightest people on Wall Street, has gotten past the breakup plan, and is solidly on a steady course of growth and return on capital.

Finally, Symonds offers his opinion that the quarterback (Mr. Kozlowski) should be taken out. This rationale is flatly wrong. Now, more than ever, Mr. Kozlowski's extraordinary record of success and knowledge of his company is absolutely essential to the success of Tyco. It was, after all, Mr. Kozlowski who led Tyco to nine straight years of success.

Before Symonds summarily dismisses Mr. Kozlowski, he might recall his own comprehensive analysis article ("The most aggressive CEO," Cover Story, May 28, 2001) where he stated: "Kozlowski has made a career of confounding the critics." Or is Symonds' commentary on Tyco just "wildly zigzagging?"

Maryanne Kane
Chief Communications Officer
Tyco International Ltd.
Exeter, N.H.

THERE ARE NO 'SCANDALS' AT TYCO

Your recent article on General Electric Co., "The education of Jeff Immelt" (Cover Story, Apr. 29) refers to anthrax attacks at NBC, Enron's implosion, and "accounting scandals at Tyco International." May I ask, to what "scandals" are you referring?

Certainly, a lot of questions have been asked about our accounting—and we have answered all of them during the course of eight straight weeks of live investment-community conference calls. What there has not been is any indication of wrongdoing, any kind of re-statement, any official inquiries into Tyco's accounting or, for that matter, any "accounting scandals."

J. Brad Gee
Executive Vice President
Tyco International (U.S.) Inc.
Exeter, N.H.

ISRAEL: ECONOMIC FALLOUT FROM THE WAR?

The greatest harm inflicted on Israel's economy comes from the global high-tech downturn, not from the current conflict—contrary to what you suggest in "Israel: The economic cost of

war" (News: Analysis & Commentary, Apr. 29). In fact, there are many bright spots on the economic landscape, such as the biotech, security, and defense industries, which continue to innovate and attract foreign investors.

From Jan. 1, 2001, through April 2002, the Amidex Israel Technology Index (which tracks 35 Nasdaq-listed Israeli companies) was down 3%, roughly equal to the 29% Nasdaq decline. Furthermore, the Tel Aviv Stock Exchange in 2001 outperformed the Nasdaq, the Dow Jones industrial average, and the Standard & Poor's 500-stock index. Brainpower remains Israel's greatest natural resource—that adapts quickly to new markets and situations. With these factors in mind, Israel is well-positioned for future growth.

Zohar
Economic Mir
Israeli Mission to North America
New

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives starting in 1991 are available on the World Wide Web.

www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: *BusinessWeek*, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

Fax: (212) 512-6458

Email: bwreader@businessweek.com

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>

(click "Manage Your Account")

For individual subscriptions, corporate subscription and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

Email: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

Email: bw_group@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

Email: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use; \$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

Email: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins

SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox

VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge

VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson

VP, CONTROLLER: Kevin P. Pascale

VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau

VPS, SALES: Mark A. Flinn (Northeast region and BWT), Karen Christiansen (Southeast reg.), Grant A. Getz (Midwest reg.), Robert J. Maund (West reg.)

VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia

VP, MANAGING DIRECTOR-ASIA: Alan Lammin

VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carvalho

VP, STRATEGIC PLANNING: Kimberly Greer

VP, STRATEGIC PROGRAMS: Jim Richardson

VP, SALES DEVELOPMENT: Kimberly L. Styler

VP, MARKETING: Patricia Crocker France

VP, CONSUMER MARKETING: Joyce Swingle

The McGraw-Hill Companies

BusinessWeek

MAY 20, 2002 (ISSN 0007-7135) ***
3783

Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).

Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate \$54.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies/back issues, \$9.95. Call 1-800-235-8697 or email: busweek@nrmisinc.com. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579

Postmaster: Send address changes to *BusinessWeek*, P.O. Box 5225, Boulder, CO 80522-3225. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post

International Publications Mail Product Sales Agreement No. 246484.

Registered for GST as The McGraw-Hill Companies, Inc. GST #R123075673. Copyright 2002 by The McGraw-Hill Companies, Inc. All rights reserved. Title registered in U.S. Patent Office. European Circulation Center, McGraw-Hill House, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 848640.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, Chairman, President, and Chief Executive Officer; Kenneth M. Vittor, Executive Vice President and General Counsel; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank D. Fenglass, Senior Vice President, Treasury Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$1.80 per copy of each article. Send payment to the CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address requests for customized bulk reprints to *BusinessWeek* Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135/00/\$3.95. PRINTED IN THE U.S.A.



When everything works together,
the results can be quite powerful.

Powerful resources. Precision timing. Proven expertise. That's what makes a truly outstanding performance. And that's what makes AEP stand out. With holdings across the energy spectrum—natural gas lines to barges, coal mines to rail cars—coupled with vast generation resources, we've built our business model on a foundation of solid, diverse assets. And we keep our portfolio dynamic, with the flexibility to take advantage of each new opportunity at the right time. For an energy leader with the expertise to put its resources to work for you, one stands above the rest. AEP.

aep.com



AEP is a proud sponsor of Cirque du Soleil® 2002 North American Tours
© 2002 American Electric Power Co., Inc.

BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

A HANDHELD THAT FOCUSES ON FUN



Sony's Clie comes with the best screen on the market—and an optional camera

The makers of handheld computers have decided that the way to make money is to avoid the brutally competitive consumer markets and concentrate on the less-price-conscious mobile executive. This has led Palm, Handspring, Compaq, and others to develop productivity tools with an emphasis on wireless communications.

Then there is Sony Electronics. The big Japanese consumer-electronics company has always marched to the beat of its own drummer. And in the case of its Palm-based Clie handhelds, this means a focus on fun rather than work.

The newest pair of models, the \$499 PEG-NR70 and the \$599 PEG-NR70V, are definitely a departure from the Palm-powered norm. Size is the first thing you notice about the new Clies, which are identical but for the built-in camera in the more expensive version. At 5½ by 2½ by ¼ in., they are about an inch longer than a Palm m515 and, at 7 oz., more than 40% heavier. Equally odd, at first glance there doesn't seem to be a display.

Lift the top, though, and the Clie opens up like a miniature laptop to reveal why, in this case, bigger may be better. The bottom half holds the familiar Palm buttons and, as is becoming common on handhelds, a miniature keyboard. The keyboard is not as good as those on the BlackBerry pagers or the Handspring Treo. It's a bit difficult to hit the flat-topped keys precisely, and the design is top-heavy, so it doesn't balance well when you hold it with both hands and type with your thumbs. But the key layout is good, and the keyboard is usable.

Above the hinge you'll find the best color display that I have seen in a handheld device. It's big—about 3 in. high, and a little over 2 in. wide—bright, and offers several different modes. For most applications, the screen is divided into a 320-by-320-pixel display area at the top, with a

region on the bottom that corresponds to Graffiti shorthand entry area on standard Palm OS. The main display area is about the same size as on a Palm m515, but packs in four times as many pixels. This makes it possible to print more readable type and much more attractive graphics and photos. When applications handle the high-resolution screen, the Clie automatically drops back to standard Palm 16-bit resolution. Some programs, such as photo viewers and certain games, don't need data. For them, the Graffiti area disappears, and an application can use the full 320x480 screen.

Those aren't quite all of the display's tricks. By twisting the screen, it rotates 180 degrees clockwise—and the contents of the display rotate vertically. You can then close the unit and use it as a flat tablet, although the standard Palm OS icons will then be hidden inside. Or you can

prop it on a flat surface and use it as a tent card to display a slide show of photos. The arrangement looks fragile, but the same swivel display has been used in millions of LCD display camcorders.

On the new model, the camera era is continuing in the Clie and can be used in clamshell or tablet mode.

The lens revolves 180 degrees, and a button on the side of the hinge serves as a shutter control, automatically launching the photo capture program. The maximum resolution is 320 x 240 pixels, good for e-mailing or display on a Clie, but too low for printing.

The new Clie features some typical Palm touches. A jog wheel on the left side lets you scroll through lists and operate many functions one-handed. There's a built-in MP3 music player, and the Clie doubles as a remote control for a variety of TVs, VCRs, and DVD players.

A less positive Sony exclusive is that the expansion is through a proprietary Memory Stick slot. This works fine for storage, but it locks out the programs and content, such as software guides, available for Palms in the SD card format. The Memory Stick is also incompatible with communications add-ons, such as a BlueBrew short-range wireless adapter, that are being developed for SD and Palm.

At a time when the rest of the industry has decided that the key to making money in handhelds is the business market, Sony thinks it's found another path to success. I hope they are right because the new Clie is a lot of fun.



CHANGE OF SCENERY:
The PEG-NR70V

BusinessWeek online

FEELING LOST? Check out new global positioning systems products for the Pocket PC at Technology & You at www.businessweek.com/technology/

Welcome to this season's Coach trunk show.



Presenting the Lexus RX 300 Coach Edition. They say style is all about how you carry yourself. At Lexus, we wholeheartedly agree. Especially if you happen to be carrying yourself in the elegant RX 300 Coach Edition. The RX 300's smooth ride is made even more indulgent when paired with an Ivory Coach Edition leather-trimmed interior with perforated seats. Rich bird's-eye maple embellishes both the steering wheel and the interior trim. And along with your RX 300 Coach Edition you'll receive two complimentary Coach® bags—a large Hamptons leather Cabin Bag and the new Signature Demi Pouch handbag in the exclusive Coach signature logo fabric with leather trim. So you can carry just about everything else in style, as well.



lexus.com

THE PASSIONATE PURSUIT OF PERFECTION. **LEXUS**

COACH

©2002 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts, secure children in rear seat, obey all speed laws and drive responsibly. For more information, call 800-USA-LEXUS (800-872-5398). ®Coach, the Coach tag and the Coach lozenge are registered trademarks of Coach.

BY ROBERT KUTTNER

AT&T AND COMCAST: A BAD DEAL FOR ALMOST EVERYBODY



DUBIOUS:
On close inspection, the proposed merger looks like a sweetheart deal that will deeply wound what remains of AT&T

Should AT&T be added to the growing corporate rogues' gallery that now includes Enron, Global Crossing, and WorldCom? What these companies have in common is not just their financial tailspins but scandals of self-dealing and failures of corporate governance—sweetheart deals by insiders at the expense of shareholders. AT&T's proposed merger with Comcast Corp.—replete with huge shareholder losses and insider favoritism—is not yet a front-page scandal only because the other scandals are worse.

As recently as two years ago, AT&T was on a buying spree. CEO C. Michael Armstrong spent \$97 billion to acquire two giant cable competitors, TCI and MediaOne, in order to put AT&T squarely in the broadband business. By one indicator, cost per cable subscriber, Armstrong paid double their market worth. The buzzword back then was synergy; AT&T—facing declining margins in its core long-distance business—could bundle cable, Internet, wireless, and telephone services.

But that was then. Armstrong never executed the synergy strategy, and it's not clear that the idea was ever viable. As AT&T stock headed south, Armstrong threw the concept into reverse. In 2001, he announced that the company would be broken up into four pieces. Then Armstrong changed the game plan yet again, making a deal with Comcast CEO Brian Roberts for a super-merger that would give AT&T Comcast some 40% of all U.S. cable customers.

The deal, which still must be approved by three regulatory agencies and by shareholders, has several suspicious wrinkles. AT&T and Comcast would merge only to have the prime portion—the cable operation—be spun off into a separate venture. The venture would have Roberts as its CEO and Armstrong as its chairman. The Roberts family would get 33% of the new company's voting shares at a cost of only 1% of its assets. With Armstrong taking AT&T's crown jewels to the new venture, some other hapless soul would get to manage AT&T's low-margin leftovers.

To a lot of critics, this looks like nothing so much as an exit strategy for Armstrong and a sweetheart deal. When the merger was announced, the cable assets Armstrong acquired in 1999 and 2000 for more than \$97 billion in AT&T stock and debt were to be sold for just \$72 billion. Since the deal was announced, Comcast stock (which AT&T shareholders will receive) has declined from \$38 a share to below \$30, meaning that the deal is now worth only \$62 billion to AT&T shareholders. So, after just two

years, CEO Armstrong is unloading for \$62 billion assets that cost AT&T shareholders \$97 billion.

Unlike Enron or Global Crossing, let us hope AT&T is no house of mirrors. CEO Armstrong took over a company that was once the standard of American capitalism. How do chief executives get punished for blowing through \$35 billion in shareholder value? Last year, Armstrong received \$17.2 million in total compensation, plus more than 1 million stock options can be exercised over the next five years. A compensation committee explained that this was an incentive to "align" Armstrong's interests with the company's through 2005. Evidently, the incentive failed. But the kindly committee really voted Armstrong an additional 1.4 million stock options, worth \$32 million even at the depleted stock price.

The merger is structured to defy shareholder challenges. There is only one shareholder vote on the financial terms of the deal and the new governance arrangements, which will make Roberts and Armstrong very hard to fire.

The merger also would dramatically increase concentration in the cable business. AT&T Comcast would instantly dwarf everyone else, giving Armstrong alarming control over pricing and content. Long-distance telephone and wireless services have increasingly become commodities with slender profit margins, cable continues to enjoy immense market power and profits to match. No wonder Armstrong covets cable, even if the rest of AT&T will languish.

For decades, the cable industry has succeeded in persuading Congress and the Federal Communications Commission that real competition is around the corner. But competition never materializes. Instead of competing with one another to offer competition, cable companies merge each other to monopolize markets and raise prices. Cable rates have risen, since 1990 triple the rate of inflation. FCC Chairman Michael K. Powell has a remarkably sanguine view of "intermodal competition"—the fantasy of modems competing with DSL telephone lines, Internet service, satellite competing with cable, and so forth. But a study by economist John Cooper of the Consumer Federation of America shows that these markets remain highly concentrated and enjoy monopoly profits.

The AT&T Comcast deal is a perfect marriage of bad corporate governance and bad public policy. Such games can be played at AT&T, problems of corporate governance are endemic. Only the shareholders can kill this deal—and they should.

Robert Kuttner is co-editor of *The American Prospect* and author of *Everything for Sale*.

Talk about easy. Our company now
has wireless access to our inventory.
Real-time information. From anywhere.

In our day, if you wanted to know
what was in the warehouse, you
had to walk there yourself.



ANDREVIC



HARTBACH



PHILIP HURTER

ANDREVIC MANUFACTURING, INC.

Through the snow.

el Wireless Business Solutions. Now you'll never have to say "Imagine what I could have
if..." because you'll be busy doing it. And it's not just having the Internet on your phone;
real-time access to customer data, pricing, inventory. Whatever drives your business.
me. Anywhere. On a variety of devices. And it's all possible because only Nextel has a
nal wireless network designed specifically to carry both voice and data. Call toll free
7-NEXTELC, or visit nextel.com/WBS to see how we can help you outmaneuver your competition.

WIRELESS
BUSINESS SOLUTIONS

NEXTEL



EDITED BY PETER COY

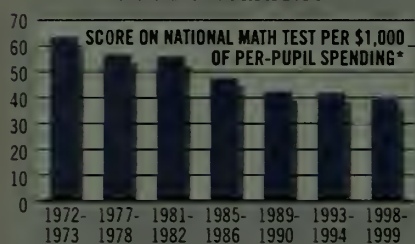
MAKING SCHOOLS MORE EFFICIENT

Competing for students is key

Official government statistics make no attempt to measure productivity in public education. In particular, there's enormous dispute about how to measure the "output" of education.

But assuming that test scores are a reasonable measure of educational output, public schools are getting less pro-

SCHOOL PRODUCTIVITY KEEPS FALLING



*1999 DOLLARS. SCORES FROM NATIONAL ASSESSMENT OF EDUCATIONAL PROGRESS FOR 17-YEAR-OLDS

Data: Caroline M. Hoxby

ductive by the year. In 1972-73, each \$1,000 of spending per pupil "bought" 63 points on the National Assessment of Educational Progress math test for 17-year-olds, according to calculations by Harvard University economist Caroline M. Hoxby. By 1998-99, that same level of spending "bought" only 39 points (chart). The trend is similar for other tests and ages. To correct for inflation, all spending is stated in 1999 dollars.

What's the solution? Hoxby argues that educational productivity rises if parents have more choice among schools. That forces schools to become more efficient to retain students. For example, in metro areas with many school districts, such as Boston and Pittsburgh, parents can easily switch school districts by moving to another town in the same area. In other areas, a large number of traditional private schools provides an effective alternative to the public-school system.

By comparing test scores in areas with and without choice, Hoxby concludes that competition makes public schools more productive. She calculates that the productivity of American schools would rise 28% if all metro areas had ample inter-district competition and many private schools. She also finds good results from newer forms of

choice, such as vouchers in Milwaukee and charter schools in Michigan and Arizona.

By contrast, a new paper by Alan B. Krueger of Princeton University concludes that an effective way of improving educational outcomes is to increase spending to reduce class size. By studying Tennessee's Project STAR, which randomly assigned students to large or small classes, Krueger calculates that money spent on reducing class size in the early grades from 22 students to 15 produces a 6% annual rate of return by raising students' future incomes. For minority students, he calculates the rate of return is 8%.

Krueger's work on class size contradicts the widely accepted results of the Hoover Institution's Eric Hanushek, who has argued for years that reducing class size doesn't improve results. Hanushek compiled 277 estimates drawn from 59 other studies. But Krueger says Hanushek's analysis put too much weight on estimates that were based on small sample sizes and studies that weren't properly designed to test for the impact of class size.

FLYING SOLO OVERSEAS

Joint ventures are declining

You would think that in the Age of Globalization, international joint ventures would multiply like mushrooms after a spring rain. Partnering with a local business, after all, would seem like a good way for a company to get a foothold in a foreign market.

In reality, the past two decades have seen a decreased reliance on international joint ventures by U.S. multinationals, according to a study by Mihir A. Desai and C. Fritz Foley of Harvard University and James R. Hines Jr. of the University of Michigan. In 1997, the latest year for which data are available, joint ventures made up only 20% of U.S. multinationals' foreign affiliates. That's down from 28% in 1982, a drop that probably reflects both a decline in the number of new joint ventures and a tendency to shut down existing ones. At the same time, a record 80% of all affiliates were wholly owned.

Moreover, the trend continues today, report the authors, drawing that conclusion from their conversations with managers. The problem is, globe-spanning multinational corporations and their local partners have different in-

terests. For one, the multinationals want to move production to the countries where demand is growing, while their joint-venture partners want to keep the factories at home running at full capacity. Also, the multinationals may want their affiliates to offer accounts to other subsidiaries of the company, while the local partners want to maximize profits at home. As a result, companies increasingly prefer to buy their foreign affiliates outright rather than deal with the hassle of coordinating with a partner.

By Margaret Po

A NOT-SO-HEAVY DEBT BURDEN

Companies are in decent shape

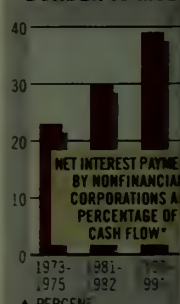
Some investors and economists worry that heavy corporate debt burdens could hurt the nascent economic recovery. At the start of the year, the ratio of nonfinancial companies' debt to their worth stood at 60%, the highest since at least 1952.

But Deutsche Bank Senior Economist M. Cary Leahey argues that companies are in better financial shape than in previous recoveries. He notes that low interest rates have helped to bring down the cost of servicing debt. The ratio of net interest payments to cash flow is around 25%, vs. about 40% in the 1990-91 recession (chart). Companies also have more assets available to help pay off debt. At the start of the year, the ratio of financial assets to liabilities stood at 91%, far above the 70% to 80% range during the 1980s and early 1990s. Zeroing in on short-term liquidity, Leahey finds that the ratio of liquid assets to short-term debt is at its highest level in 25 years, as companies have plenty of cash on hand.

True, a rate hike by the Federal Reserve would make debt more expensive. But "if you get an increase in rates because the economy is strong," says Leahey, "then you will get a big increase in cash flow, and that will blunt the problem."

By James Mehring

THE CORPORATE DEBT BURDEN IS MODERATE



*AVERAGE OVER RECENT PERIODS
2001 RECESSION DATA THROUGH FOUR QUARTERS
Data: Deutsche Bank

JAMES C. COOPER & KATHLEEN MADIGAN

'JOBLESS RECOVERY?' NOT THIS TIME

Growth is off to a good start—and signs point to more hiring ahead

U.S. ECONOMY

If you recall the "jobless recovery" of 1991-92, you also remember that it was as hollow and disappointing as an Easter egg without the chocolate. Now, with the April unemployment rate jumping to 6%, concerns about a simply unsatisfying recovery in 2002 are cropping up. Such worries are misplaced: This is not 1992. In the first three quarters of that recovery, the economy managed to grow at an annual rate of only 1.8%—not fast enough to keep private payrolls from falling by 457,000 after the recession had ended, which pushed the jobless rate to nearly 8%. Contrast that with this year's experience: The economy grew at a 5.8% annual clip in the first quarter, and several forward-looking indicators in the April employment report suggest hopeful prospects for future gains in both output and employment.

Another key difference this time is the cyclical strength of productivity growth—on top of its accelerated long-run trend (chart). Rising efficiency improves the outlook for corporate profits by drastically reducing the labor costs required to produce a unit of output (page 88). At the same time, productivity is buoying the real, or inflation-adjusted,



of workers (page 42). Measured as output per hour worked, productivity in the first quarter increased at an 8.6% annual rate from the fourth quarter, when it jumped 5.5%. You have to go back to the 1983 recovery to find back-to-back gains that large. Since the recession officially began in the third quarter of last year, productivity has grown at a 5.8% annual rate, compared with the 1.1% pace during the same period of the last recession.

First-quarter productivity was boosted by a cyclical jump in output. So in coming quarters, output per hour worked is likely to settle back closer to its long-run trend of about 2%. That means economic growth for the rest of 2002 will be more apt to come from both productivity gains and job increases—a combination that fights the notion of a jobless recovery.

THAT PRODUCTIVITY GAINS offsetting labor costs and helping to contain inflation, the Federal Reserve can afford to keep monetary policy extremely stimu-

lative. As widely expected, the Fed voted unanimously on May 7 to keep its federal funds rate at 1.75% and reaffirmed its belief that the risks in the outlook are balanced evenly between economic weakness and inflationary pressures.

Despite robust first-quarter growth, the Fed said it wanted to see more convincing signs of a strengthening in overall demand before starting to nudge rates higher. The April increase in vehicle sales and strong advance in mortgage activity suggests that consumers remain steadfast (chart). But the Fed appears to want clearer evidence that business outlays for capital goods are gathering momentum. The Fed's post-meeting statement said that improving overall demand is "an essential element in a sustained economic expansion."

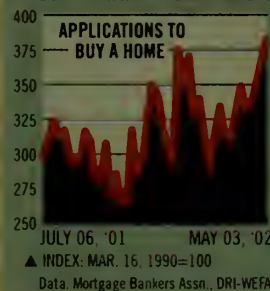
Historically, the Fed doesn't tighten policy until the unemployment rate begins to fall. That could take a few more months. Payrolls increased 43,000 in April, but they need to grow at a consistent monthly pace of 150,000 or more to absorb the influx of new workers into the labor force and allow the jobless rate to drop. That could push the Fed's first rate hike into late summer or early autumn.

Even so, as long as the economy posts growth for the year in the range of 3% to 4%, that pace will be sufficient to generate jobs at that key 150,000 clip and ensure that the jobless rate for this business cycle tops out near April's 6%.

IF ANYTHING, the jump in the unemployment rate from 5.7% in March said more about the past than the future. For one thing, the rise was influenced partly by the federal extension of unemployment benefits put into effect in March. That caused a rise in the number of workers counted as unemployed members of the labor force—most of whom might have otherwise left the labor force. Indeed, the workforce jumped by an unusually large 565,000 in April, and 85% of those people were counted as unemployed.

Second, the jobless rate is a lagging indicator of economic activity. Improving business conditions always bring more job seekers into the labor pool before com-

MORTGAGE ACTIVITY IS STILL ON THE RISE



Business Outlook

panies are ready to hire them. That could also explain some of last month's spike in the labor force.

More important, the April employment report contained some signs of future job growth. For instance, the increase of 43,000 jobs, while small, was the broadest across industries in just over a year (chart). And the gain came despite a decline of 79,000 jobs in construction, part of which appears to be statistical payback for the boost in winter building activity created by the unusually mild weather. Aside from construction, March payrolls increased instead of declined, and April jobs rose by a sturdier 122,000. Private service-producing companies—nearly 80% of all private-sector payrolls—added 132,000 workers last month, the largest gain since the summer of 2000.

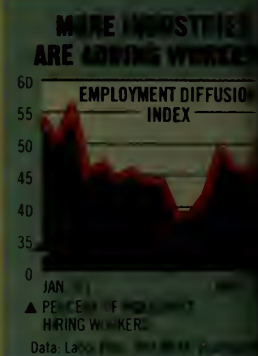
SERVICE PAYROLLS have been rising since December, with a significant part of the gain coming from workers provided by temp agencies. Those jobs rose by 60,000 in March and 66,000 more in April. Temp-hiring is a crucial leading indicator of permanent job gains. Businesses began to shed temp workers six months before overall payrolls started to drop last year, and increased temp hiring now suggests that companies are seeing greater demand.

Manufacturing is the weak spot in the hiring outlook. Factories, which were shedding jobs even before the recession officially began, still face intense global compe-

tition. They are unlikely to add many workers this year and will instead focus on improving productivity.

But the labor data signal that factory activity, again on the rise, another sign that final demand is picking up. Factory payrolls fell by 19,000 workers in April, but after losses averaging 109,000 per month last year, that was the smallest drop in a year and a half. Also, the factory workweek and overtime hours have risen to levels not seen in a year. Manufacturing output rose last quarter for the first time since 2000 and it appears to have increased further in April.

Another key difference between now and a decade ago is that, even with the pain of layoffs affecting some workers, households are decidedly more upbeat now. Back in 1992, job jitters kept the Conference Board's index of consumer confidence seesawing between 50 and 80. In April, 2002, it stood at 109. Also, back in the early '90s, Fed Chairman Alan Greenspan often referred to job insecurity as a key weakness holding back that recovery. This time around, the data offer some hope that job seekers will find a little more satisfaction at the hiring office.



ITALY

LABOR WORRIES COULD CRIPPLE THE UPTURN

Italy's recovery is getting off to a slow start. What's more, potential labor strife threatens to dampen the rebound even further.

After its real gross domestic product fell at an annual rate of 0.8% in the fourth quarter, Italy struggled to grow in the first quarter and will likely expand a mere 1% to 1.5% this year. Consumer spending is healthy, helped by rising wages and a jobless rate that slipped to a two-decade low of 9.2% in the first quarter (although that rate remains above the average 8.4% for the 12-country euro zone). Exports, which fell 2.8% in 2001, are also expected to contribute to economic growth this year.



So far, the data on the euro zone's fourth-largest economy have been mixed. Retail sales fell in February for the first time in five months, and the April purchasing managers' index slipped slightly, dragged down by weakness in output and orders. But business confidence in April rose to a 15-month high (chart). Companies expect to boost output in coming months as demand picks up.

Mixed data are not unusual when an economy is turning in a business cycle. But what complicates Italy's outlook is the uncertainty on the labor front. The coalition government of Prime Minister Silvio Berlusconi campaigned on a plat-

form of job creation. Now, Rome wants to reform labor laws, including making it easier to fire workers and change unemployment benefits and pensions. The goal is to create at least 1.5 million new jobs by 2006.

Organized labor, however, protests that the reforms are the first step in dismantling the rigid negotiation structure between the unions, the government, and the industry group Confindustria. Workers already went on a one-day strike on Apr. 16. Another labor action is threatened, perhaps in the summer.

Both the government and the unions have much at stake, so the battle could be a long one. Until compromise is reached, the prospect of more work stoppage will worsen the outlook for Italy's recovery.



DO YOU KEEP ALL YOUR OLD
BUSINESS CARDS.
THAT SO YOU REMEMBER
WHERE ALL YOUR 401(K)S ARE?

Have you moved on. But what about your money? Fidelity Rollover ExpressSM
is an easy, simple way to put yourself in charge of your retirement savings.
Work with an experienced retirement consultant, call, click or visit Fidelity
today. Because you're not just invested. You're personally invested.SM

FIDELITY ROLLOVER EXPRESSSM

EASY ROLLOVER PROCESS
EXPERIENCED RETIREMENT SPECIALISTS
MORE INVESTMENT CHOICES

CALL A FIDELITY RETIREMENT SPECIALIST TODAY

1.800.FIDELITY

| FIDELITY.COM

| 85 INVESTOR CENTERS



Retirement consultants are associated with Strategic Advisers, Inc., a registered investment adviser and a Fidelity Investments company.
Fidelity Brokerage Services, Member NYSE, SIPC

312915

MURDER IN THE

He was openly gay, a flashy dresser, and politically incorrect to the point of outrageousness. But by the time Pim Fortuyn was gunned down in a parking lot on May 6, the upstart right-wing Dutch politician had single-handedly riveted public attention on the hot-button issues of immigration, crime, and the self-serving ways of the elite. Fortuyn had a reasonable shot at winning the largest bloc in the Dutch Parliament—and the chance to wield real power in one of Europe's richest countries. He might even have become Prime Minister.

Now, he's gone—and so are many of the illusions the Dutch had about the decency of their politics and their public life. "The Dutch always like to believe that we are in a special corner of the world where really dirty things don't happen," says Hans van Baalen, parliamentary foreign affairs spokesman for the Liberal Party. "This will change Dutch society like September 11 changed America."

Van Baalen could just as well be speaking for all of Europe. For decades, Europeans thought their streets were safe, their politicians competent, their welfare states tolerant and sustaining. But Europe is a different place these days—a place where racial hatreds sim-

mer just below the surface, people fear street crime, political elites are cut off from voters, extremist politicians are increasingly finding support, and execs are wondering if the dysfunctional welfare state can ever be fixed. Fortuyn is dead, but the issues he raised and opportunistically exploited will dog the Continent for years to come.

It's easy to understand why. In many ways, the Netherlands is a microcosm of Europe. The Dutch built a welfare state that for decades was able to provide jobs and generous social services to its citizens as well as to hundreds of thousands of immigrants from the Caribbean, North Africa, and Turkey. Then, in the 1990s, the Dutch reinvented their welfare state by cutting taxes and adopting a more flexible labor regime. That paid off in one of the highest growth levels in Europe.

But the Dutch miracle never eradicated the differences between the immigrant communities of Rotterdam and Amsterdam and mainstream Dutch life. The Dutch grew alarmed at the growing presence of those they considered outsiders: A third of the population of the big cities were from foreign backgrounds, and, with practicing Christians scarce, Islam became the most dynamic religious force. When the economy cooled, fear of street crime and immi-

grants jumped. After September 11, more attacks on Muslims occurred in the Netherlands than anywhere else in Europe.

Fortuyn, 54, a former sociology professor and columnist for a right-business magazine, emerged at just the right time to exploit this situation from his base in gritty Rotterdam. He long tried to break into the top ranks of the various national parties with little success. The growing discontent gave him a chance for revenge.

Fortuyn was everything the Dutch Establishment pols weren't—wicked, humorous and wildly unconventional. Although he called himself an intellectual, his program was populist to the hilt. He blasted the vaunted *polder* model, by which business, politicians and the unions reach consensus, as a cartel. Indeed, because coalitions of most interchangeable parties have ruled the Netherlands for decades, the system has ossified. Fortuyn called for giving more power to voters by directly electing both Prime Ministers, who are chosen by parliamentary coalitions, and mayors, who are appointed by the queen. "Fortuyn's campaign has shaken up Dutch politics more than any in decades," says Peter Mair, a professor of comparative politics at Leiden University in the Netherlands. "Polit-

FORTUYN'S PLATFORM STRUCK A CHORD WITH VOTERS ACROSS EUROPE

Data. List Pim Fortuyn, *BusinessWeek*

MINORITIES

Integrate minorities into "Judeo-Christian humanist" civilization through improved education in language and culture. Prohibit arranged marriages, female genital mutilation, and discrimination against homosexuals.

IMMIGRATION

Reduce the number of refugees and discourage asylum seekers.

GOVERNMENT

Directly elect the Prime Minister and mayors. Improve public services by cutting school sizes, having a primary school within

cycling distance of every child, opening health care to private providers.

PUBLIC ORDER

Use military border police and customs officers to fight crime.

EUROPEAN UNION

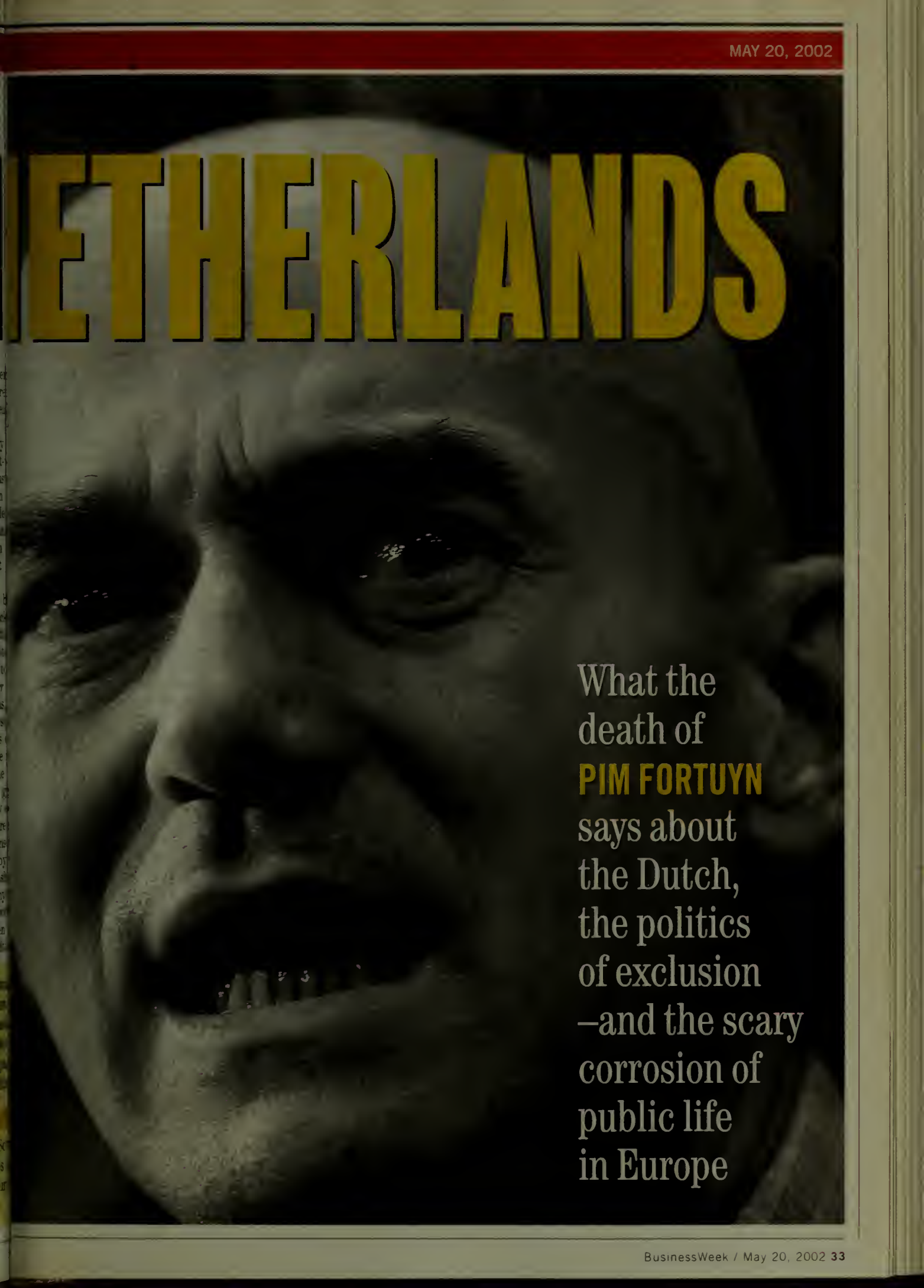
Slash Brussels bureaucracy. Establish a pow-

erful European Senate with delegates from national Parliaments. Give the Dutch veto power over EU expansion via a referendum.

FINANCES

Resist tax hikes. Slash capital-gains taxes to boost entrepreneurial activity.

NETHERLANDS



What the
death of
PIM FORTUYN
says about
the Dutch,
the politics
of exclusion
—and the scary
corrosion of
public life
in Europe

will have to be more responsive to voters now."

It was attacks on immigrants that won the tall, shaven-headed Fortuyn his notoriety. Although he railed at suggestions that he was xenophobic, he certainly exploited voter resentment of immigrants. He called for sharp curbs on new entrants and leveled harsh critiques at some of the Netherlands' immigrant communities. And he took a particularly confrontational approach to the country's Muslims. Fortuyn argued that immigrants from Islamic backgrounds tended to be poorly prepared to be productive members of modern Western societies and that it was stupid to bring large numbers of such people into Western Europe. "Christianity and Judaism have gone through the process of enlightenment, making them creative and constructive elements in society," he said in one of his last interviews on May 3. "That didn't happen in Islam. There is tension between the values of modern society and the principles of Islam." He blasted Islamic culture for repressing women and making homosexuals outcasts. "I consider this scandalous and want to stop it."

While many Dutch praised Fortuyn for opening up discussion of subjects long taboo, others blamed him for whip-



ping up inter-community tensions. Now, members of the Netherlands' minorities worry that they will be subject to increasing discrimination and even violence. "I am very scared," says Fatima Elatik, a Labor Party alderwoman for the Amsterdam neighborhood of Zeebrugge. Elatik, who is of Moroccan descent, says she has been getting racist e-mails ever since September 11 and that after the assassination, she got an insulting message suggesting that Fortuyn's death had made her happy.

The Netherlands has large minority communities from Suriname and the Netherlands Antilles that are a legacy of its colonial empire, as well as num-

THE OTHER AMSTERDAM

Minority leaders say the government must address deficiencies in education

bers of Moroccans and others whose families arrived as workers in the 1970s. Dutch have had far less success in bringing these people into society than other countries. Unemployment is only 10% among minorities.

Still, one only has to take the metro to the outskirts of Amsterdam to see that integration has only half succeeded. Along the tracks are massive, curving concrete housing projects where there are

white faces. "It really sucks here," says Valerie, a 23-year-old unemployed mother from Curaçao, who complains that her rent is too high and her apartment too small, though she acknowledges that Dutch social service covers most of her bills. Nearby, a visit to a bus stop reveals a motley group of men and women avoiding the rain in the lee of a nearby building. Some are red-eyed and shaking. "This used to be a nice neighborhood," says Adwin Ramden, originally from Suriname. "But in the past 15 years, people have gotten into drugs and taking drugs."

Moroccan youths, along with others from the Netherlands Antilles, go

COMMENTARY

By John Rossant

EUROPE'S EXPLOSIVE IDENTITY CRISIS

There's an ill wind blowing across Europe. You can feel it in France, where the May 5 victory of Jacques Chirac does not erase the fact that almost 6 million voters cast their ballots for hard-right xenophobe Jean-Marie Le Pen. You can see it in the meteoric ascent of maverick Dutch politician Pim Fortuyn and in his assassination on May 6. You can feel it in the increasing shrillness of what currently passes for political debate in Italy, Denmark, and Britain. Amid the many currents feeding this rising tide of European malaise, one stands out: Europeans are in the midst of a monumental identity crisis.

From Berlin to Lisbon, people are stuck in a kind of existential halfway house. Behind them are the ancient nation-states of Europe, each defined by language, ethnicity, and varying economic models with national champions such as Fiat, Renault, or Siemens. Ahead is the post-modern construct of the European Union. The problem is, the first is fast collapsing, but the second has not yet been fully built.

That's why the recent confidence of European Commission President Romano Prodi seems so forced. On Apr. 29, Prodi told a skeptical British audience that "we [in Europe] have found a way

to express our regional, national, and European identities without losing any of them." Oh, really? Moroccans would beg to differ. No one can say whether a distinct European identity will eventually emerge. After all, apart from government institutions that flies the blue, 15-starred EU flag,

At the same time, what do we mean in 2002, to be French, Belgian, or Italian? The euro has replaced most national currencies. Rules and regulations issued from the European Commission now seem to affect the lives of 450 million Europeans more than the decisions of national Parliaments. People watch helplessly as companies that were once a source of patriotic pride—Telecom Italia, Ericsson, Kirchoff—falter or get taken over.

Two other factors make the situation downright explosive. The growing presence of immigration in a Europe that, for the most part, cannot accept nonwhite

me for much of the street crime. Moroccan community leaders don't dispute the allegations but say the government is slow to address deficiencies in education and other services. Alderwoman Fatima Atik, 28, thinks the growth of commercial television has put tremendous pressure on youths to acquire expensive shoes and mobile phones. "When I was a kid, I didn't give a [damn] if I had Nikes or not," she says. "Now, everyone wants Prada shoes."

Be that as it may, the street violence has convinced many Dutch that multiculturalism just isn't working. There is still fear about the future even at dinner conversations in middle-class homes. "We haven't solved these problems when we were doing well, what will happen now that we may not do so well?" says Joke Mooy, a doctor.

The Dutch also wonder if their Mr. Nice Guy approach has been a big mistake. The country had long pursued the opposite of former New York Mayor Rudolph W. Giuliani's zero-tolerance policy. Called *gedogen*, the approach might be translated as tolerance of minor offenses. Under this banner are the coffeehouses with names such as Amnesia that peddle marijuana and shops that sell magic mushrooms.

The argument has been that it's a waste of police resources to pursue minor, victimless crimes. But now, passers-by are accosted by scruffy "salesmen" offering ecstasy and cocaine all over Amsterdam—even in front of the royal palace. Residents say they are intimidated by such characters, as well as the gangs of young men, often from

minorities, that roam the streets.

Fortuyn also appealed to entrepreneurs and others with less of a stake in the current system. "All of the politicians come from the public sector. It's a closed shop," says Arie Kraaijeveld, president of the FME-CWM, an industry group that represents engineering and metalworking companies. Fortuyn wanted to cut red tape and lighten taxes to encourage entrepreneurial activity.

Major company execs, though alarmed at Fortuyn's immigrant-bashing, also had a quiet admiration for his attacks on the Establishment. "I am very supportive of someone shaking up politics," says Ewald Kist, CEO of Amsterdam financial-services giant ING Group. Many Dutch execs think the ruling party is increasingly out of touch with economic matters. Corporate taxes, now 35%, are felt to be too high, and recent generous labor settlements have reduced the Netherlands' advantage over Germany. The disability system, which has a million people on its rolls, is a long-running scandal no one seems to have the will to end. With many manufacturers barely profitable, a wave of downsizing seems inevitable. Kraaijeveld estimates that 5% to 6% of the workforce in the industries he represents will be laid off in the next year. "Structural problems are not being tackled sufficiently. Confidence in the political system has been diminishing," says Kees van de Waaij, national manager for the Netherlands at Anglo-Dutch consumer-products giant Unilever Group.

Some of Fortuyn's business supporters, such as Roel Pieper, an ex-exec of

Philips Electronics and Compaq, are positioning themselves for possible government posts. "If [Fortuyn's party] comes in first or second, chances are they'll have to be in the government," says Pieper, now chairman of Favonius Ventures fund.

Even before Fortuyn's shocking murder, powerful undercurrents were rocking Europe. Protest votes have given new clout to hard-right candidates in Austria, France, Belgium, and Denmark. While some business execs support these movements, their real strength comes from blue-collar voters. "The lower classes feel threatened. They see their neighborhoods changing and their property values declining," says Lodewijk de Waal, president of Netherlands Trade Union Federation. Many of them may vote for Fortuyn's party on May 15 even though, for all intents and purposes, Fortuyn was the party.

What led to his fatal attack is still unclear. The police have charged Volkert van der Graaf, a 32-year-old animal rights activist, with the crime. There is speculation that he feared Fortuyn would help entrepreneurs by loosening regulation of livestock farmers.

In any case, observers around the world are wondering what has gone wrong in the Netherlands. So are the Dutch. In Amsterdam's Dam Square, people gathered to light candles in Fortuyn's memory. "I didn't agree with anything he said," noted grad student Esteban Rivas. "But this is no way to treat your enemies." And it's no way to treat Europe's growing problems.

By Stanley Reed in Amsterdam



Residents as full citizens. The relentless economic anemia, deep unemployment high. Thus, European towns and cities, a cycle of crime, violence, and racism in hold. Pressure was starting to build before Le Pen's strong showing in

wake-up call probably came in October during an historic France-Algeria exhibition soccer game at the Stade de France in Paris. The crowd of 80,000 was mostly young, suburban *beurs*—slang for French people of Arab descent. The government-sponsored match was a disaster: Spectators jeered as the French na-

PARIS CORNER

Many Europeans don't accept immigrants as full-fledged citizens

France's presidential election. Witness the string of attacks, some deadly, on immigrant hostels in Germany and the race riots that wracked northern Britain last summer. The loudest

French society, it was hard to top.

In this season of distrust, violence, and death, it's hard to believe Europe will find its way again. Maybe, at this juncture, it pays to look at how much Europeans have already accomplished. The effort to unify Europe has helped consolidate a half-century of peace—the longest tranquil stretch this bloodied continent has known. "When I look back, each step of building Europe has been a miracle," says Gérard Mestrallet, CEO of French-Belgian energy and water giant Suez. But forging a true European identity—untainted by nationalism and ethnic hatred—will take many miracles more.

Rossant covers European politics from Paris.

REGULATION

STATES ARE GOING WHERE THE FEDS WON'T TREAD

Filling a regulatory void, they're out to tackle Big Business

If the business-friendly Justice Dept. doesn't halt the marriage of satellite-TV giants Hughes Electronics Corp. and EchoStar Communications, there's a feisty fellow in Missouri who just might take on the job. State Attorney General Jay Nixon is prepared to lead a coalition of 30 states in challenging the merger, which he claims would snuff out what little pay-TV competition there is in rural areas. "If [federal] antitrust regulators allow this monopoly to happen, it doesn't seem like there would be much work left for them," says Nixon.

States lining up to block corporate mergers? It's all in a day's work for a vocal group of activist regulators, lawmakers, and attorneys general out in the heartland. Convinced that Washington's watchdogs are asleep, a growing number of states have decided to take the lead on consumer-protection issues as diverse as battling corporate polluters and fighting for lower drug prices. Impatient and ambitious, they have been galvanized by the laissez-faire regulatory doctrine of many Washington regulators. With Bush Administration appointees staunch backers of industry deregulation and self-policing, the grassroots rebellion stands to gain momentum—a trend that has Big Business worried.

One fertile new target for the rebels: corporate malfeasance. In the aftermath of the Enron and Arthur Andersen scandals, state officials are now investigating a broad array of investor ripoffs. Some 12 states, led by New York, California, and New Jersey, have launched

probes of financial-analyst conflicts and are weighing regulations to deal with abuses. "With gridlock in Congress and a Republican in the White House, states are the only place that progressives can make a difference," says Bernie Horn, an attorney with the Center for Policy Alternatives, a liberal think tank.



One consequence of the new activism is a slew of individual state restrictions on Corporate America. Many wouldn't stand a chance on Capitol Hill, where the business lobby holds sway. But outside the Beltway, they have fared much better. Georgia, North Carolina, and California have all passed curbs against "predatory lending" practices that aim at low-income borrowers. Maine has restricted drug-price hikes for some residents. Hawaii has capped gasoline prices. And California is nearing passage of a bill that limits auto emissions of carbon dioxide, a gas thought to

cause global warming (page 38). State officials say that the White House's decision to punt on the Kyoto global warming protocol made them act on their own.

State activism isn't new, of course. It's been evident since the Reagan era. But the trend has clearly accelerated, prompted by the perceived vacuum in Washington and the sense that coordinated state action can make a difference. A huge catalyst turned out to be Big Tobacco's mind-boggling \$246 billion settlement of a state-inspired action in 1998.

That's why states aren't in awe of corporate giants such as Microsoft. Today, nine states—led by Connecticut,

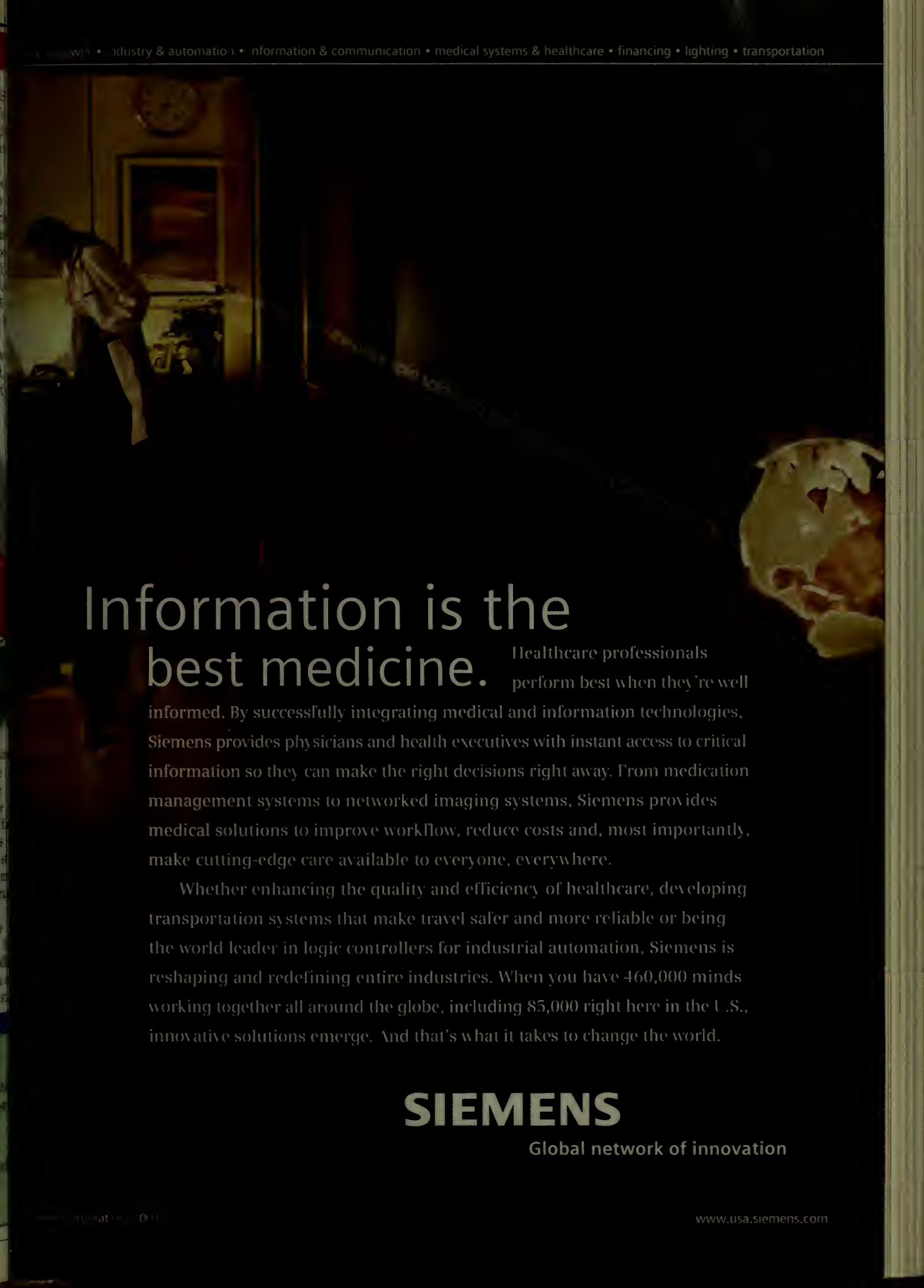
California, and Iowa—are pressing separate antitrust cases against the software maker, convinced that the Justice Dept.'s decision to settle the case lets the company off the hook. Although many of their arguments fall by the legal wayside, there is some chance the upstarts could force a new rewrite of the Windows operating system.

Drug companies don't scare states, either. Washington has been stymied in attempts to reform Medicare and implement a new prescription drug benefit for the elderly. So some states

Shifting Into High Gear

No longer waiting for Washington to take the lead, state capitals are forging ahead with their own powerful regulations and legislation:

ANTITRUST	BANKING	ENVIRONMENT	INVESTING
Nine states are still battling Microsoft, long after the Justice Dept. called it quits. And some 30 states plan to fight the satellite TV merger of Hughes and EchoStar if Justice doesn't.	Georgia, North Carolina, and California have adopted tough anti-predatory lending laws. Lenders have run to Congress for legislation preempting the states.	The California Senate has passed a bill limiting tailpipe emissions of carbon dioxide, which could advance the national global warming policy that President Bush rejected.	New York and 11 other states have launched probes in conflicts of interest among analysts, raising fears of a national "patchwork" of new securities regulations.



Information is the best medicine.

Healthcare professionals perform best when they're well informed. By successfully integrating medical and information technologies, Siemens provides physicians and health executives with instant access to critical information so they can make the right decisions right away. From medication management systems to networked imaging systems, Siemens provides medical solutions to improve workflow, reduce costs and, most importantly, make cutting-edge care available to everyone, everywhere.

Whether enhancing the quality and efficiency of healthcare, developing transportation systems that make travel safer and more reliable or being the world leader in logic controllers for industrial automation, Siemens is reshaping and redefining entire industries. When you have 460,000 minds working together all around the globe, including 85,000 right here in the U.S., innovative solutions emerge. And that's what it takes to change the world.

SIEMENS

Global network of innovation

are barging ahead on their own by mandating buying cooperatives and by importing cheaper drugs from north of the border. "We couldn't wait for the wheels of the [federal] bureaucracy to work," says Elizabeth Wennar, CEO of the United Health Alliance in Vermont, a group fighting for drug discounts. "In Washington, it's become about politics, not policy."

Although many of the state crusaders are liberals, the activists' club is not an exclusive Democratic preserve. Two of the nine AGs pursuing Microsoft are Republican. Among them: Utah's Mark Shurtleff, who received the backing of the company in his 2000 election bid. And states like Georgia and North Carolina, hardly hotbeds of liberalism, have adopted stronger consumer laws in recent years as the political demographic shifted from the rural piney woods to bustling new suburbs and growing cities. "State officials are closer to the people," contends Roy Cooper, North Carolina's AG. They "sense problems more acutely."

When the states get belated offers of help from Washington, the answer is often "thanks, but no thanks." None of the 12 states investigating stock analysts, for instance, has shown any inclination to back off since the Securities & Exchange Commission announced its own probe. Says Andre Pineda, Assistant Commissioner of the California Department of Corporations: "We've seen little on the federal level that shows us that California investors are being protected."

Of course, there's a certain irony in the current state of affairs. For years, conservatives and their business allies have been preaching at the altar of states' rights. But now, with activist voices coming out of the Albany, Sacramento, Augusta, and elsewhere, conservatives are no longer so keen on the locals. That's forcing them to change their tune. "The commerce clause [of the Constitution] gives Congress a lot of power to preempt states," notes Jim Wooten, a top legal adviser for the U.S. Chamber of Commerce.

Don't expect Corporate America to stop bashing pointy-headed Washington regulators overnight. But after dealing with emboldened state officials and AGs, business may soon be feeling a bit fonder of its old Uncle Sam. Better the bureaucrat you know than the one you don't.

By Dan Carney, with Lorraine Woellert in Washington, Christopher Palmeri in Los Angeles, and Brian Grow in Atlanta

CLEAN-AIR STANDARDS: AN END RUN AROUND WASHINGTON

Detroit was blindsided. Expecting an assault of environmental legislation from Washington this spring, the auto industry dispatched troops of lobbyists to the banks of the Potomac to make a stand, successfully defeating a push for stricter national fuel-economy standards. But the real threat came from the other coast. After environmental lobbyists worked their own contacts in California, the state senate approved a bill on May 2 that would force auto makers to sell cleaner, more fuel-efficient cars in the state by 2008. "I was elated," says Sierra Club Executive Director Carl Pope. "This was such a sharp contrast from how Congress has reacted to environmental legislation."

The California battle isn't over yet: The state assembly still needs to approve a final version of the measure, and Governor Gray Davis hasn't indicated whether he'll sign it. But if—as expected—the environmental lobby wins this skirmish, it may ultimately prove just as significant as a victory in Washington would have. Why? California is the only state that can create clean-air standards, since its laws predate federal regulations. But other states have the option of adopting California's rules. So the environmentalists plan to take the same legislation to like-minded Northeastern states and then deeper into the heartland, ultimately targeting key states such as Texas and Florida. "We have ac-

cepted the fact that environmental leadership is not coming from Washington," Pope says. "We will focus consumers and the states."

It's a strategy that could work—and that has Detroit hopping mad. After defeating the federal measure that would have required auto makers to boost fuel efficiency in March, the industry thought it had wrapped up the issue. Now, though, Detroit may have to wrestle with the environmentalists in state capitals. In the past, California's clean-air and low-emissions laws have gotten a warm reception in New York and New England, where legislators have adopted California's existing limits on carbon monoxide, smog, and causing nitrous oxide and soot from cars. "Our biggest fear is that this becomes the battle we already fought and won at the federal level," says Gregory J. Dana, vice president of environmental affairs for the Alliance of Automobile Manufacturers in Washington.

That's likely to happen, which could ultimately bring the battle right back to Washington. Since the auto industry doesn't want the stricter California standards adopted state by state, it might agree to somewhat tougher federal fuel economy and emissions laws. Says one General Motors Corp. insider: "I can't have 50 different states telling us how to build cars. That would be chaos." And that's exactly what the environmental lobby is counting on.

By David Weisbach
in Detroit



NEXT STOP, SACRAMENTO

How environmentalists hope to toughen clean-air and fuel-efficiency laws:

- ▶ Win over California, the only state that can adopt its own clean-air standards
- ▶ Take California proposals to the Northeast, where legislators have tackled clean-air issues
- ▶ Move deep into the heartland, so auto makers can't ship cleaner cars to just the two coasts
- ▶ If enough states enact the California standards, pressure Washington to adopt them nationally



DO YOU MAKE HEADLINES OR DO YOU READ THEM?

Invent a cure. Create a new business model. Try something different. If you like to push the boundaries, there's AIG. The organization with more ways to manage risk and more financial solutions than anyone else. Everything from environmental insurance to risk management services to financial protection for high net worth individuals, to name a few. So if you want to see your bold idea in bold headlines, contact AIG.

THE GREATEST RISK IS NOT TAKING ONE.™



INSURANCE, FINANCIAL SERVICES AND THE FREEDOM TO DARE.

COMMENTARY

By Amy Borrus and Mike McNamee

THE OVERHAUL WALL STREET REALLY NEEDS

The Bush Administration never tires of extolling the virtues of the Investor Class. Putting information in the hands of investors, a favorite Administration mantra goes, empowers them to make smart financial investments that ultimately enrich the U.S. economy. But what if the sources of the information are so enmeshed in conflicts of interest that the advice they give is tainted?

The SEC action couldn't come soon enough for Pitt. His ties to former clients have put his credibility on the line. The latest revelations haven't helped: Pitt met with the chairman of KPMG International, an ex-client now under SEC investigation for its audits of Xerox Corp. Pitt denies discussing Xerox with KPMG, but the incident has revived doubts about his independence and grit.

If current probes by New York and the SEC uncover deeper corruption, pressure for tougher action will grow.

How so? For starters, the SEC should do more to prod brokerages to sever, not just trim, the link between analysts' pay and banking fees. The Association for Investment and Management Research (AIMR),

which runs the Chartered Financial Analysts examinations, thinks research quality should determine pay. "Until Wall Street firms totally disengage the way analysts are paid from the success of the investment banking side, there will continue to be conflicts," says CEO Thomas A. Bowman of the AIMR.

To buttress the Chinese Wall that is supposed to separate analysts from their banking co-workers, firms could bar analysts from the "road shows" that underwriters use to sell new stock issues. An anti-retaliation rule to prevent analysts from being pen-

POLICING ANALYSTS

The SEC's proposals help, but it needs to do more:

- End the practice of linking analysts' pay to investment banking revenues
- Bar analysts from "road shows" managed by lead underwriters
- Adopt an anti-retaliation rule to prevent analysts from being penalized or fired for issuing a negative report
- Improve research by adding risk and time-horizon indicators that would help shareholders size up investments

**SEC CHIEF PITT:
UNDER FIRE**

That concern is at the heart of the widening scandal over the cozy relationships between Wall Street analysts and their investment banking colleagues. Revelations that analysts knowingly misled investors in order to pump up banking fees have already unleashed the fury of New York State Attorney General Eliot Spitzer upon Merrill Lynch & Co. The two sides are now trying to hammer out a settlement that would impose changes on the way Merrill's analysts do their jobs, and other big-name firms may be next.

Now, Securities & Exchange Commission Chairman Harvey L. Pitt, under increasing political pressure to crack down on Wall Street, is stepping up the SEC's efforts. On May 8, the SEC imposed rule changes that force analysts to limit and disclose contacts with investment banks.

So how hard-hitting are the SEC rule changes? Brokerages must reveal whether companies they rate are or are likely to be banking clients. Any communication between bankers and analysts prior to a research report's distribution must go through the firm's lawyers. Brokerages must also tell investors how their analysts' stock ratings correlated with changes in stock prices. The new rules also stop the practice of paying analysts bonuses for help on specific investment banking deals.

That's a nice start—but it's hardly enough. As the ugly e-mail exchanges between Merrill Lynch analysts and bankers make clear, Wall Street needs higher walls and tougher policing to ensure the advice investors get is free from banking pressure. Moreover, the rules were drawn up before Spitzer's revela-

nized for issuing negative reports on a banking client would also help, according to John C. Coffee Jr., a professor at Columbia University.

The rating system needs overhaul, too. The current "buy," "hold," or "sell" ratings don't tell investors much, especially since analysts rate only 2.5% of stocks a "sell" or "strong sell." Adding time-horizon and risk elements would provide more guidance. AIMR also says analysts should issue final reports when they stop following a company, rather than simply dropping coverage to avoid a "sell" rating.

Protecting investors must be Pitt's prime goal. He tells critics to judge him by his actions. What he does next to halt the collusion that has tainted analysts' reports will be key.

Borrus and McNamee cover finance from Washington.

BMW
Certified
Pre-Owned

bmwusa.com
1-800-334-4BMW



ertified cornering

ertified freedom

ertified road trip

ertified 6 kickin' cylinders

ertified break out the sun block

ertified Pre-Owned BMW



ed only at an authorized BMW center.
arranty protection* up to 6 years or 100,000 miles. Get flexible leasing and financing options. Get pure BMW.

≡ Certified Pre-Owned ≡
by BMW

WAGES

LOTS OF WORKERS ARE STILL GETTING RAISES

Despite unemployment, productivity is protecting pay hikes

When a downturn hits, companies cut costs like a helium balloonist ditching ballast to avoid an ocean landing. In the 2001 recession, U.S. corporations slashed capital spending and cut millions of jobs. Curiously, though, one thing didn't suffer—pay raises. In the first quarter, wages and salaries after inflation rose at a strong annual rate of 2.8%. That's a bigger inflation-adjusted gain than in any calendar year of the 1990s.

One reason that pay gains remained strong during the recession was that unemployment remained low, averaging under 5% for all of 2001. But even though the economy is recovering, the jobless rate is still going up, hitting 6% in April. That's the highest level in eight years—and with corporate job cuts continuing, many economists believe it could go higher later this year. Auto-parts maker Delphi Corp., for instance, said last month it's laying off more than 6,000 workers. Telecom companies such as Qwest Communications International Inc. and SBC Communications Inc. continue to slash thousands more.

Does this mean that most workers' good luck has run out?

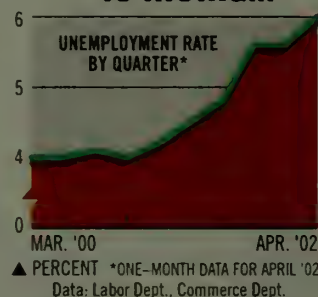
it margins, some will likely be passed on in pay raises to workers. And competition will force companies to share some of the savings with consumers in the form of lower prices, predicts James W. Paulsen, chief investment officer at Wells Capital Management in Minneapolis.

The bottom line: continued gains in inflation-adjusted pay. Macroeconomic Advisers LLC, a St. Louis-based economic consulting firm, predicts real wage gains of 1.6% for all of 2002. Says Chris Varvares, the firm's president: "We'd be very fortunate to have that, year after year after year."

Productivity is the key. The Labor Dept. reported on May 7 that U.S. workers' hourly output rose at a stunning annual rate of 8.6% in the first quarter. Because employees produced more while working fewer hours, the labor cost for companies to produce each unit of output plunged at a 5.4% annual rate.

How much real wages grow will depend on

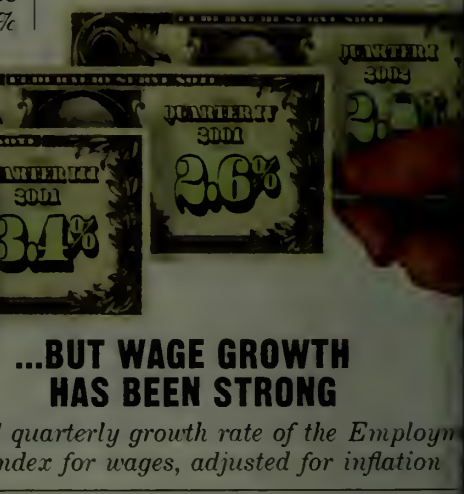
JOBLESSNESS IS RISING...



more leverage over workers now they did during the boom years. The year that ended in March, inflation-adjusted pay rose just 2.1% in real terms, for example, while white-collar workers in manufacturing got just a 1.9% increase. And the average Manpower temp makes \$12.80 an hour, a rise of less than last fall. Manpower Inc. Chairman and CEO Jeffrey A. Joerres expects no change for the next six months.

In many tech companies, raises will well below historical standards. Oracle Corp., for instance, says its average raise this year is in the low single digits. "The market is awash in talent," says Jeffrey O. Henley, Oracle's chief financial officer. "Nobody's giving out big raises right now because they don't have

Of course, some industries are hard-pressed for help, and their workers are doing just fine. National pay in hospitals rose 5.2% after inflation for the year ended in the quarter of 2002. Tenet Healthcare Corp. says a nursing shortage is putting pressure on nurse salaries, though its overall labor costs are flat. A share of revenue. Pay also rose in finance, insurance, and real estate, including a 7% rise at banks and savings-and-loans. And throughout the economy, says Steven E. Gross, head of compensation consulting at Mercer Human Resource Consulting, companies are jealously guarding their top performers and people with critical skills.



Data: Labor Dept., Commerce Dept.

Probably not. There's good reason to believe that workers will continue to earn healthy pay raises for the rest of 2002, albeit not quite as strong as over the past year. That's because of continued strong growth in productivity, which measures how much each worker produces per hour. Although companies will no doubt hold onto a big share of those productivity gains to bolster prof-

how the spoils of productivity get divided among companies, workers, and consumers. For now, much of the benefit seems to be going to companies. On May 8, U.S. stocks posted their biggest advance in months as Cisco Systems Inc. posted a \$729 million profit in its latest quarter, compared with a loss of \$2.7 billion a year earlier.

In many industries, companies have

Surprisingly, many are even looking for some new blood.

In a low-productivity economy, workers lose big in a recession and are slow to recover. But in today's high-productivity economy, those who kept their jobs fared well in the slump—should do fine in the recovery as well.

By Peter Coy in New York, bureau reports

SUNG DIGITall
everyone's invited

The flat out clear choice.

WiseView™ at any angle.



SAMSUNG TFT-LCD

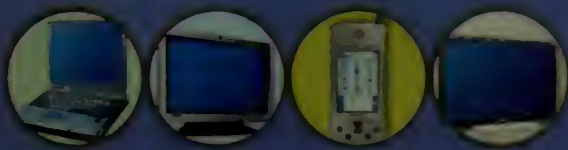
Now you can get distortion free viewing 18" to 40" displays with outstanding clear resolution. The choice is clear. The choice is WiseView digital displays by Samsung.

WiseView technology that's ahead of its time. Every TFT-LCD visual display on a cell phone, notebook, monitor, PDA, LCD TV or game with the WiseView

logo has the reliability, clarity and quality that you can expect from Samsung.

WiseView from Samsung. When you're looking for the perfect view, look for the WiseView logo. You flat out the clear choice.

For more information, visit us at
www.samsungTFTLCD.com.



Laptop

Monitor

PDA

Game



ELECTRONICS

WiseView is a trademark owned by Samsung Electronics Co., Ltd.

CURRENCIES

THE GREENBACK'S SETBACK: CAUSE FOR CONCERN?

More weakness is likely, but a free fall isn't

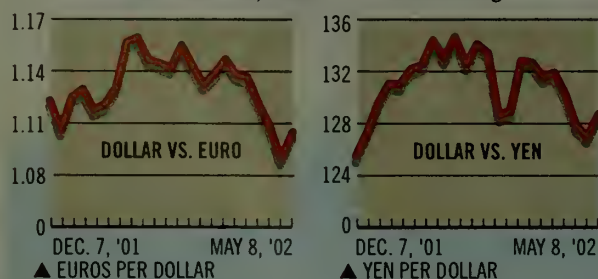
The dollar has garnered a reputation as a Teflon currency, and for good reason. No matter how bad things looked for the U.S. economy in recent years, the greenback always emerged unscathed. First there was the March, 2000, collapse of the Nasdaq. Then the recession a year later. And, finally, the September 11 terrorist attacks. Through it all, nothing seemed to dent the dollar.

But now, some of the luster is starting to wear off. With U.S. growth slowing and the stock market looking erratic, foreign investors may have had their fill of dollars. The greenback dropped to a six-month low against the euro and a seven-week low against the yen on May 3, after news that the U.S. unemployment rate jumped to 6% in April. Although the dollar got a boost May 7 on news of an 8.6% annualized surge in productivity in the first quarter, on May 8 it remained off by roughly 5% against both the euro and yen over the past three months.

That has traders worrying that the dollar's decline could signal the beginning of a collapse. After all, traditional analyses comparing the cost of goods in various countries—so-called purchasing power—suggest the dollar may be overvalued by as much as 30%.

TEFLON DOLLAR NO MORE

The U.S. dollar remained strong throughout the downturn, but it's now weakening



Data: Bloomberg Financial Markets



At the same time, the U.S. trade deficit continues to grow, to \$31.5 billion in February, its highest level in nearly a year. That means the U.S. is dependent on an ever-rising influx of foreign funds to pay for all the imported automobiles, TVs, and clothing that U.S. consumers crave.

Of course, for some, a weaker dollar would be good news. Hard-pressed manufacturing companies and farmers struggling to compete overseas have been complaining about the dollar's high level for months. But a dollar crash would be something else, disrupting financial markets and the economy. Fortunately, no one thinks that's imminent. Foreigners would have to flee the U.S. markets in a panic to trigger such a rout, and that's not happening. Foreign corporations and institutional investors are scaling back their purchases of dollars but remain in the game, says consultant David Gilmore of Foreign Exchange Analytics.

Yet even that small shift in sentiment could signify tough times ahead. "The recent weakness is a warning shot of what might be coming longer

term," says Goldman, Sachs & Co. economist Jim O'Neill.

The biggest shift seems to be in foreigners' willingness to buy U.S. assets. In the late 1990s, the U.S. enjoyed a record inflow of direct foreign investment as companies from carmaker Daimler Benz to cell-phone giant Vodafone Group PLC sought a foothold in the booming market here. Now, that investment has slowed to a crawl.

Foreign corporations announced mere \$600 million in cash-financed deals in the U.S. in April, far below the \$11.2 billion monthly average during the last three years. "This represents a significant threat to the dollar," says Robert Sing, Citigroup's head of global currency strategy.

Foreign pension funds and institutional investors may also have had their fill of U.S. financial assets. Catherine Mann, a former Federal Reserve official now with the Institute for International Economics, a Washington think tank, reckons U.S. stocks today account for nearly 60% of the equities held by global fund managers. That's roughly double the level in the mid-'90s. The U.S. share of international bond holdings has also doubled, to 30%. But that appetite appears to be decreasing as stock markets overseas have outperformed the U.S.

Foreigners bought \$26.7 billion of U.S. stocks and bonds in the first three months of this year, down sharply from the nearly \$100 billion they snapped up in the same period last year, according to the latest U.S. government data. Anecdotal evidence suggests that the situation may have gotten worse since then. Nearly two-thirds of some global fund managers polled by Merrill Lynch & Co. in April considered Wall Street the most overvalued of the world's top five stock markets.

Of course, the dollar continues to have plenty going for it. America's productivity remains the envy of the world. But with foreigners already heavily invested in the U.S. economy, that's considered old news. Now the focus is on capital flows. And that's why the dollar's nonstick coating is showing scratches.

By Rich Miller in Washington, D.C.
with David Fairlamb in Frankfurt



Reign globally. Borrow locally.

BAY VIEW BUSINESS BANKING

Loans and Lines of Credit

57 Locations

Bay Area Focused

Cash Management

Asset-based Lending

Business Online Banking

Commercial Banking Specialists

YOUR COMMERCIAL BANKING SPECIALIST CALL
800-BAY-VIEW, OR VISIT WWW.BAYVIEWBANK.COM

BayView Bank[®]
Genuine Interest[™]



MAYBE REBUILDING A LIFE IS JUST A MATTER OF HAVING THE RIGHT TOOLS

When you're young, disadvantaged and in trouble, opportunity doesn't always knock at your door. In Santa Ana, California, a group of Catholic nuns keeps the door of opportunity open to the city's youth through Taller San Jose, a state-of-the-art education and job-training center.

"Taller" means "workshop" in Spanish, and that's exactly what the center is – a life-changing workshop where practical, hands-on education in building trades, computers, nursing and other professional skills are the tools. And where a skilled, motivated workforce is the finished product.

Please call 714 543 5105 today

and see how you can help build the future of Southern California.

TALLER SAN JOSE

Sponsored by the Sisters of St. Joseph of Orange

WHAT'S IN STORE FOR THIS HAPPY COUPLE?

Despite the cheering, the new HP is facing steep odds

When Hewlett-Packard CEO Carleton A. Fiorina and then-Compaq CEO Michael D. Capellas met with investors last fall to sell their controversial merger, they were routinely greeted with icy silence and muttered jokes. But on May 7, at the launch of the newly merged company, the Carly and Mike duo received a far warmer reception: They were breezing through a painless press conference, the duo received a standing ovation from employees. Says HP human resources chief Susan Bowick: "It was like a rock concert, before the Rolling Stones come out on stage."

But all it the HP Honeymoon Tour—duration unknown. The new HP is even trying to get the benefit of the doubt from Wall Street: The stock has risen 15%, to \$20, since Apr. 30, when dissident board member Walter Hewlett conducted a proxy fight against the deal.

In part, that's because HP shares had surged 26% since the merger was announced, leaving little place to go but up. But investors and analysts were impressed with the detailed integration plans the company offered up.

It also helps that many believe the company is doing the right things. The new HP will feature Compaq's corporate low-end servers, its iPAQ handhelds, along with Dell's printers and Sun's servers. Con- sider PCs from both sides will also remain, though HP's business PCs and iPAQ handhelds are not. "They've been more planning than anyone ever thought," says Gart-



FIORINA AND CAPELLAS

Buoyed by newly bullish reports from Wall Street

tough work on a controversial deal, insiders say, some may soon depart.

Then there are financial hurdles. The company has said it can cut costs by at least \$2.5 billion a year by 2004, while holding revenue losses to just 5%. That's supposed to lift earnings per share from 88¢ in 2001 to \$1.51 next year.

ner Group Inc. analyst Martin Reynolds.

Still, the star turn may not last long. Now, Fiorina and Capellas need to roll up their sleeves, because their merger faces huge challenges. One top problem may be morale. Despite the cheering throngs, many HPers still dislike the combination. Nearly 75% of the 34 million shares in

one HP retirement plan were voted against the deal. And few of the company's 145,000 employees know if they're among 10,000-plus impending layoffs, which will be announced starting May 13.

HP hopes to partially address the problem by offering voluntary buyout packages, which should allow the disgruntled to leave. "It's time to get past this," says HR chief Bowick. But HP will likely lose top performers, too. With the deal closed, some 6,000-plus key managers will get the first half of cushy retention bonuses. After months of

But as AOL Time Warner and MCI WorldCom show, high-tech mergers rarely meet their goals. Indeed, some insiders worry that HP may come up short of its revenue and earnings targets. Fiorina, though, says those fears are unjustified. "The more we've looked at it, the more sound our assumptions have looked," she told reporters on May 7.

Key to meeting those targets will be strategy, and investors like what they see. When the merger was announced, analysts expected Fiorina to emulate IBM's push into consulting and other services. But for now, she wants to exploit HP's market-share lead in PCs, servers, and storage, which means working with IBM's services rivals such as Accenture. That's smart, since such partners might have directed customers to rivals like Dell Computer Corp. "HP scared [the big services companies], who don't want another IBM to compete with," says Humberto Andrade, an analyst with Technology Business Research Inc.

Still, Fiorina needs flawless execution and cost-cutting—especially with more-focused rivals such as Dell and Sun fighting for every deal in this down economy. "Right now, HP needs to focus on raw blocking and tackling rather than more glamorous long-term visions," says Morgan Stanley Dean Witter & Co. analyst Rebecca F. Runkle. If the company can't get the details right, the honeymoon could be painfully short.

By Peter Burrows in Cupertino, Calif.

AND CARLY THOUGHT THE PAST YEAR WAS TOUGH

HP's merger with Compaq is off to a good start, but plenty of big hurdles lie ahead

MORALE

Many of the new HP's 145,000 employees don't know if they'll be laid off, and there's still lots of opposition to the deal among the ranks

STRATEGY

HP is betting its new breadth will help it vanquish rivals such as Dell and Sun, but those companies may have more focus with narrower product lines

TECH SPENDING

With tech sales in the dumps, rivals will fight for every deal just as HP needs to concentrate on integrating Compaq's products and employees

COMMENTARY

By Michael J. Mandel

AND THE ENRON AWARD GOES TO...ENRON

At its peak, Enron Corp.'s name was everywhere. Enron Field, renamed a couple of months ago, was home to the Houston Astros baseball team. There was the Enron professor of economics. And let's not forget the Enron Prize for Distinguished Public Service, given to such well-known honorees as now-Secretary of State Colin Powell and Federal Reserve Chairman Alan Greenspan.

Now, I'd like to propose an annual award that will simply be called the Enron. The award—and the accompanying trophy, a gold statuette of Enron ex-Chairman Kenneth L. Lay—will go to the company whose actions did the most to undermine capitalism and free markets in the preceding year. In its inaugural year, the Enron Award, to be nicknamed the “Kenny Boy,” will go, of course, to Enron.

Clearly, Enron richly deserves the honor. Since last fall, a continual stream of revelations about Enron's deceptive financial reporting has played a decisive role in making investors wary of corporate accounting and the stock market in general. Moreover, many Americans started questioning the safety of their retirement savings after Enron's workers took devastating losses in their 401(k) plans—the result, in part, of Enron not allowing them to sell the company stock that Lay and other executives had encouraged them to buy.

Now comes the latest outrage: documented evidence that shows the company

really did help create the California power crisis in 2000 and 2001. By manipulating the electricity market, Enron was able to boost prices and profits artificially, even as Lay was blaming regulators for the crisis.

Enron consistently acted in ways that struck directly at the heart of the New Economy. The New Economy depends on innovation and markets, rather than the status quo and government regulation. Growth rests on investors, workers, and customers being willing to take financial and technological risks. Investors have to be willing to put their money into stocks, to fund cutting-edge investment. Workers have to be willing to accept flexible pay as part of their compensation. And customers have to trust that deregulated companies are not taking advantage of them.

In effect, there has to be an implicit moral contract to make the New Economy work—and what Enron did was violate that moral contract. Not only did the company's executives manipulate markets, they misled the public and their own employees over and over again—not just about the electricity markets, but about the company's debt and the prospects for the company's stock as well. It's very hard for anyone to justify taking risks when they feel they are being lied to, cheated, and deprived of essential information.

Those actions alone were damaging enough. But

the sheer hypocrisy of Enron executives like Ken Lay and Jeff Skilling—who were almost evangelical about the virtues of the markets—has also added to the cynicism now widely felt toward Corporate America. As a result, Americans will be understandably less willing to accept similar claims in the future.

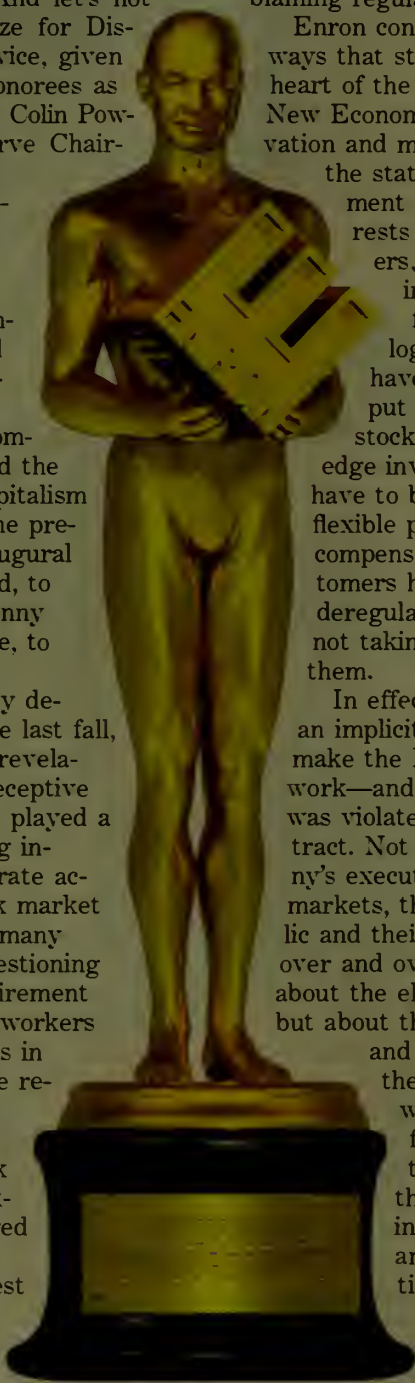
That's especially true when it comes to power deregulation. Persuading consumers to forgo the protection of government and put their trust in the marketplace can be trying in the best of circumstances. It becomes far more difficult when internal Enron memos show convincingly that the company manipulated prices.

The strategies detailed in the memos are a blueprint for ripping off California ratepayers through maneuvers with such code names as “Death Star” and “Get Shorty.” One memo, for example, prepared by an attorney working for Enron, says the company was paid by the state of California to relieve congestion on California's transmission lines “without actually moving any energy or relieving any congestion.”

Deregulation proponents fear that Enron's alleged wrongdoing will kill the political support for free markets. Pointing to the transmission grid that includes Pennsylvania, New Jersey, and Maryland, Lawrence J. Makovich, senior director at Cambridge Energy Research Associates, says that deregulated power markets can work well. But he worries that news of Enron's actions will lead people to say regulation is “the lesser of two evils.”

There are certainly other worthy contenders for the 2002 Kenny Boy award: Arthur Andersen, Global Crossing, and Qwest all get honorable mentions. So does Merrill Lynch & Co. for its analysts' behavior. But this year, make no mistake, Enron wins hands down.

With Wendy Zellner in Dallas



In light of the company's deceptions, it will be much more difficult to persuade consumers to accept deregulation



THE GOOD NEWS IS, YOU NOW HAVE MORE VALUABLE
INFORMATION COMING INTO YOUR BUSINESS THAN EVER BEFORE.

BUT THEN, THAT'S ALSO THE BAD NEWS.



BrightStor™ Storage Resource Manager

The smart alternative to managing your storage.

You never thought you could have too much of a good thing when it came to critical business information. But now the time has come. That's why it's more important than ever to have the right software. With BrightStor Storage Resource Manager, you can finally get a firm handle on all your assets. BrightStor™ works across multiple platforms, protocols, and applications, so you can tap into information throughout your enterprise, wherever it may be. As a result, you can truly leverage your resources, making them work for you like never before. And the downside? There isn't one. To find out more, go to ca.com/brightstar/srm today.



Computer Associates™

HELLO TOMORROW™ | WE ARE COMPUTER ASSOCIATES | THE SOFTWARE THAT MANAGES eBUSINESS™

© 2002 Computer Associates International, Inc. (CAI). All trademarks, trade names, service marks and logos referenced herein belong to their respective companies.

COMMENTARY

By Louis Lavelle

HOW SHAREHOLDER VOTES ARE LEGALLY RIGGED

Most shareholders would have given up a long time ago, but not Evelyn Y. Davis. Every year since 1985, the corporate gadfly from Washington, D.C., has asked Bristol-Myers Squibb Co. shareholders to approve a proposal that would force the company to eliminate staggered board elections and elect its entire board of directors annually. Designed to increase accountability, the proposal has passed by a majority of votes cast at the annual meeting for six consecutive years, garnering 69% on May 7. Yet nothing has changed. "It's ridiculous how they ignore the wishes of stockholders," says Davis. "You just keep trying and hope that some day they'll see the light."

Don't count on it, Evelyn. Every year, dozens of U.S. companies engage in a great corporate rite of spring: ignoring shareholder resolutions that won a majority of votes cast. Despite "winning" the election, shareholders end up losing because many companies require a supermajority vote. Most states, including Delaware, require only a simple majority of votes cast to change bylaws, but some companies set the bar well above that, at a near impossible 80% of shares outstanding. Indeed, while Davis won the majority of votes cast, she only captured 46% of Bristol's outstanding shares. Says company spokesman Robert F. Laverty: "We have to be responsive to what shareholders say. We have to look at this very, very carefully."

With management accountability a front-page issue, it's time to lower the hurdle. A supermajority of 60% of shares voted is more like it. And if resolutions fall short, management should consider compromise action to address investor concerns. It's time to make it easier for shareholders to

have a hand in how their companies are governed.

At one time they did. In the early 1990s, it was not uncommon for two-thirds of shareholder resolutions garnering a simple majority of shares voted to trigger company action, according to the Investor Responsibility Research Center. Today, more res-

low-turnout year, find itself bowing to the dictates of a small minority of shareholders. Electronic Data Systems Corp. spokesman Jeff Baum says the supermajority rule is in fact pro-stockholder: "It enables us to act in the shareholders' best interest."

Other companies argue that the tough voting rules are fair, since both shareholders and management are held to the same standards when it comes to making changes to the bylaws. In fact, though, when management wants a change, is only too happy to do away with supermajorities. That's because not all resolutions involve bylaw changes. Consider stock options. When management is seeking shareholder approval for new executive option grants, which dilute the value of existing shares, most companies require only a majority of shares voted at the annual meeting. Such rules make it easy for shareholders to enrich managers but difficult for shareholders to rein them in.

Not all companies are insensitive. At Cendant Corp. and Home Depot Inc., shareholders have floated proposals that did not garner supermajorities prompting management to put them to a vote at the annual meetings—this time as management proposals. Cendant Vice-Chairman James E. Buckman says: "It gives it the best oppo-

tunity for passage that it can have." Companies with high hurdles for shareholder resolutions could learn something or two from Cendant and Home Depot. Shareholders deserve say in how their company is governed—and right now they have no such thing.

Department Editor Lavelle covers management.



A Losing Game

Companies frequently ignore majority votes on shareholder proposals year after year, citing bylaws that require a supermajority of all shares outstanding

COMPANY	PROPOSAL	NO. OF TIMES APPROVED*	MOST RECENT TALLY*
BRISTOL-MYERS SQUIBB	Eliminate staggered board elections	6	69.0%
EDS	Require shareholder vote for poison pill	3	69.1%
MAYTAG	Eliminate supermajority voting	2	59.3%

Data: Council of Institutional Investors, company filings *Data is for shares voted

olutions are winning, but far fewer—just 17%—are prodding companies into action. Says Alan P. Cleveland, special counsel to the New Hampshire Retirement System: "Is it arrogant? Sure it is. It shows a disregard of the company's shareholders."

Many companies have a different view. They say that without the higher hurdle, a company could, in a

2X BUILD COMPUTER
1X SELL COMPUTER

WHATEVER YOUR DREAM.

JOHNNIE  WALKER

EDITED BY MONICA ROMAN

SOUTHWEST: FROM SEA TO SHINING SEA

IN A MOVE LONG DREADED BY its rivals, Southwest Airlines is launching its first nonstop, transcontinental flight on Sept. 15. The low-fare carrier, which in 1998 briefly experimented with transcon service, will fly from Baltimore to Los Angeles at an introductory fare of \$99. While Southwest is primarily a short-hop carrier, it has been flying longer trips in the past few years to counteract the higher per-trip taxes now being levied on passengers. The transcontinental effort comes at a bad time for the biggest airlines, which have been struggling to raise fares and return to profitability.

MICROSOFT'S BIG BITE OF DANISH

MICROSOFT AGREED ON MAY 7 to its second-largest acquisition ever, with a deal to buy

Danish software maker Navision for \$1.3 billion in cash and stock. The acquisition will give Microsoft a European launching pad for its growing business of selling management software. It also increases the chance that Microsoft will end up competing with longtime partners such as SAP and Siebel Systems, which provide business software for large companies. Microsoft says it has no plans to go after that market, but plans instead to target small to midsize companies with software from Navision and an earlier acquisition, Great Plains Software. Still, analysts expect the lines between those markets to become blurred.

CHOPPING UP GEORGIA-PACIFIC

CONSUMER AND FOREST PRODUCTS giant Georgia-Pacific is splitting into two separate, publicly traded companies. One will keep the Georgia-Pacific name and focus on building products. A second one, yet to be named, will consist of GP's packaging and consumer-products division—whose brands include Angel Soft, Brawny, and Dixie. It will be spun off in the third quarter of 2002 through an initial public offering that is expected to raise at least \$1 billion. The IPO proceeds will go to reducing debt. Georgia-Pacific carries about \$13 billion in debt, mostly stemming from the purchase of Fort James in November, 2000. After the split, GP will have \$2.5 billion to \$2.7 billion in debt, while the spin-off will have \$8.1 billion to \$8.8 billion.

PEPSI BLUE OR VANILLA COKE?

THE COLA WARS ARE TAKING on a decidedly new flavor. On May 8, PepsiCo said it would launch a blue, berry-flavored

HEADLINER: JOHN CHAMBERS

CISCO RIDES AGAIN

CISCO SYSTEMS CEO JOHN Chambers isn't talking turnaround—but the market certainly is. The maker of networking gear posted third-quarter sales of \$4.8 billion, unchanged from the quarter before. The company's \$729 million in profits, marking a 10% quarter-over-quarter growth, were a pleasant surprise. Cost cuts fueled the jump.

Another ho-hum earnings report? Far from it, according to investors who on May 8 drove Cisco's stock up 24%, to \$16.27. That surge has added more than \$20 billion to Cisco's Wall Street valuation, and

helped jump-start the market as a whole.

Chambers, however, is playing down any talk of a rebound. He cites a dismal spending among telecom outfits, which once made up nearly half of Cisco's business. The capital expenditures of such companies have been trimmed by as much as a further 25% the year, say analysts. "This was obviously a brutal first half of year [in U.S. telecom]," says Chambers. Still, it appears that any glimmer of good news goes a long way with investors these days.

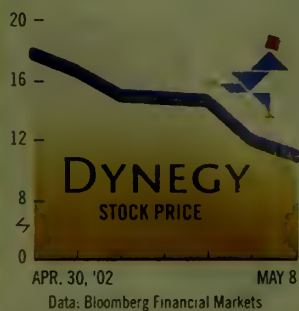
Ben El



CLOSING BELL

VAPOR LOCK

On May 8, Dynege shares fell 9%, to \$11.15, after the Securities & Exchange Commission expanded its inquiry of the company into a formal investigation. The SEC is looking at a multiyear natural-gas transaction that cut Dynege's taxes in 2001. The Houston energy trader is cooperating with the SEC.



version of its flagship Pepsi brand. Not to be outdone, Coca-Cola is rolling out Vanilla Coke. Coke and Pepsi are desperate to jump-start cola growth. Although the category accounts for roughly half of all U.S. soda sales, it has turned flat in recent years as younger consumers opt for water, juice, and other more healthful drinks. While neither Pepsi Blue nor Vanilla Coke is expected to garner more than 1% of soda sales, analysts say that if the new entrants help stem the erosion in the cola category they'll have done their job.

NOVARTIS R&D COMES TO AMERICA

IN A BID TO ATTRACT TOP scientists and improve productivity, Swiss drugmaker Novartis will move its global research and development activities to the U.S. The creation of the \$250 million No-

vartis Institute for Biological Research Inc. (NIBR) in Cambridge, Mass., is an acknowledgment that America is still the center of world-class science. It is also the first step in Novartis' plan to restructure R&D, including the appointment of scientists to top management. The NIBR will be run by Dr. Mark Fishman, a Harvard University professor and head of cardiology at Massachusetts General Hospital. Research will focus on new drugs for diabetes, cardiovascular, and infectious diseases.

ET CETERA...

- KPMG Consulting has offered to buy 23 of Andersen's consulting units for \$284 million.
- The SEC will begin requiring foreign companies to file documents electronically.
- eBay and VeriSign ink a services-and-marketing agreement for an undisclosed amount.

Build Your Business on the Power of NYC.



Take advantage of all that New York City has to offer your business:

- Affordable office space and cost-saving incentives.
- The most productive and skilled work force in the country.
- Enhanced tax incentives.
- More potential clients and customers than any other U.S. city.
- The nation's largest international travel hub.

The specialists at the **New York City Economic Development Corporation** are ready to provide you with free information on site selection, financing options, enhanced tax incentives and energy discounts.



**New York City
Economic Development
Corporation**

New York City. Where Business Happens.

Michael R. Bloomberg, Mayor

Andrew M. Alper, President

or free information, call us today at (212) 312-3600 • (866) NYC-4-SERVICE or visit newyorkbiz.com/incentives

IBM PCs use genuine Microsoft Windows
www.microsoft.com/piracy/howtotell

at table #80, dreaming up restaurant #5

Keith McNally, *Restaurateur of Balhazar, Pastis, Pravda and Lucky Strike, New York City*

Wireless connectivity options on select models.
Dual antennae built into the display for improved
signal strength! **Wireless Innovation.** It's just one of
the reasons why some of the world's most successful
people choose ThinkPad® notebook computers. Select
models feature a Mobile Intel® Pentium® 4 Processor-M
for outstanding performance and mobility.
Call **1.877.thinkpad** or visit **ibm.com/thinkpad/think**



ThinkPad ■ Where do you do your best thinking?

IBM

VRROOM



Only a Xerox Document Centre® shifts your office into overdrive. It prints, copies, faxes, scans and e-mails like no other. Saving you time and money.

There's a new way to look at it.

Performance proves it. Top companies know it. That's why 86% of FORTUNE 500® companies rely on Document Centre Multifunction systems to save them time and money.* Our unique design provides



maximum network performance. The result is crunching productivity that puts your business way ahead of the pack. To find out how we can save your business time and money, get in touch to

Visit: www.xerox.com/vroom Call: 1-800-ASK-XEROX ext.VROOM

THE DOCUMENT COMPANY
XEROX

*Certain Document Centre features are optional. ©2002 XEROX CORPORATION. All rights reserved. XEROX® The Document Company® Document Centre® and There's a new way to look at it are trademarks of XEROX CORPORATION.

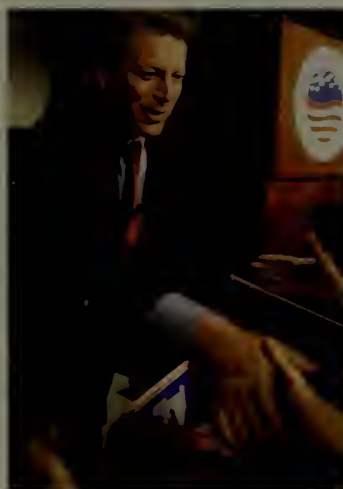
ED BY RICHARD S. DUNHAM

GORE IN '04: G ROCKS ON THE CAMPAIGN TRAIL

is rested. He's shaved. And he's rarin' to go. After 16 months on the sidelines, "Fighting Al" Gore is back in the political fray. Having roused Florida Democrats with exhortation to "never, never give up!" and bashed President Bush's environmental record on Earth Day, the former President has Democrats everywhere speculating about a comeback attempt.

Gore faces significant obstacles if he tries for the gold again. For one thing, there doesn't seem to be a ground-

swell for him. An Apr. 29-May 1 Gallup Poll found that 49% of Democrats want Gore to sit out the race, compared to 46% who back his candidacy. In a theoretical rematch against his nemesis, polls show Gore losing by up to 10 percentage points. Even in heavily Democratic California—a state Gore won by double the margin the last time around—Bush leads by 10 points, according to a May 3 Field Poll. But the polls are just the beginning of Gore's challenges. More important, perhaps, is the number of key Gore staffers who are assisting political rivals—or staying on the sidelines. Campaign Chairman William Daley has left politics to serve as president of SBC Communications. John Baldick, Gore's point man in the pivotal state of New Hampshire and Florida, has teamed up with Senator John Edwards (D-N.H.). Message guru Bob Shrum and Tad Devine, who ran the campaign's day-to-day operations, are close to Edwards, too. And Michael Whouley, the ex-Vice President's chief organizer, has long-standing ties to Senator John F. Kerry (D-Mass.). How frenzied is the competition for staff? Gore campaign manager Donna Brazile fields frequent calls from her boss, as well as House Minority Leader Richard A. Gephardt (D-Mo.) and Senator Joseph I. Lieberman (D-Conn.). Al Sharpton took me to breakfast at the Four Seasons," she notes. "And I'm seeing John Edwards tomorrow."



EX-VEEP: Pressing the flesh

While this courting may seem excessive, it is an important part of the "invisible primary." Landing top consultants and fund-raisers can raise candidates' profiles among the political chattering classes and pry open donors' wallets. And with the heavily front-loaded 2004 primary schedule, White House wannabes need to collect talent and checks earlier than ever.

Despite these setbacks, Gore would become an instant front-runner if he were to run. He has by far the highest name recognition, proven fund-raising prowess, and a track record as a vote-getter. The former Vice President also has a game plan to reintroduce himself to the American people. This fall, he will campaign for Democratic candidates in key swing states. That serves two purposes: putting Gore in front of the cameras, and collecting chits now that could be called on in 2004.

What's more, the man derided as an automaton will try to humanize himself by writing a book on marriage and children with his wife, Tipper. *Joined at the Heart: The Transformation of the American Family* is being billed as a policy tome, but it is certain to be less wonky than Gore's previous effort, *Earth in the Balance*.

Gore hopes his family-friendly message resonates with both the party's liberal core and independent swing voters. But he faces an uphill battle. Many Democrats feel he had his shot in 2000 and blew an election he should have easily won. "There is a flip side to having [Gore's] high name ID," explains Stuart Rothenberg, publisher of the nonpartisan *Rothenberg Political Report*. "In 2004, he may look old hat."

So it would pay to watch the invisible primary. The high-profile consultants who fly the Gore coop today might be telling a story about the Democratic primaries two years down the road.

By Alexandra Starr

CAPITAL WRAPUP

JUSTICE GONZALES?

A recent slip of the tongue has heightened speculation that George W. Bush intends to name a Latino to fill a Supreme Court vacancy. At a Code of Mayo event on May 3, Bush joked "*mi abogado*" Alberto R. Gonzales and noted that the White House had "served on the U.S.—or Texas—Supreme Court." While he picked Gonzales for the Texas Supreme Court, he hasn't nominated him to the Supreme Court, though the Texan is rumored to be on the short list.

THE EVER-GROWING DEFICIT

► Two weeks ago, budget analysts were worried that an unanticipated shortfall in tax revenues could double the fiscal year 2002 deficit, to nearly \$100 billion. They were wrong—the numbers will be worse than that. Final figures from the April tax season suggest that the revenue shortfall will approach \$80 billion. Add extra spending for a costly farm bill and anti-terrorism initiatives, and budgeteers now expect an '02 deficit of \$130 billion to \$140 billion.

AIR FORCE IMPASSE

► Senator John McCain (R-Ariz.) calls the Pentagon's possible lease of 100 Boeing 767s a taxpayer ripoff. He may not have to work hard to block the deal: The U.S. Air Force and Boeing are far apart on price. Boeing wants the lease to cover a big chunk of the plane's cost, though the deal would last only about a quarter of each plane's useful life. That might not matter if the Air Force keeps the planes after the lease. If not, the lease price would be steep. That could break up a deal.

GERMANY

CAN THIS MAN CRANK UP DEUTSCHE?



Its new CEO wants to radically overhaul the bank—and double its market capitalization

Josef Ackermann excels at just about everything he does. He's a skilled skier and an accomplished pianist. In his youth he was a champion javelin thrower. Now, the 54-year-old Swiss has taken up a challenge that will test his mettle as never before: reviving Deutsche Bank. On May 23, Ackermann will take over as chief executive of Germany's biggest bank.

Can Ackermann put new life into the lumbering Frankfurt behemoth? Skeptics abound. "Deutsche announces a new structure every six months but has little to show for its efforts," says analyst Mark Hoge, who follows its stock for Bank of America Securities in London. "I wonder whether Ackermann will really make much difference."

Turning around Deutsche's flagging fortunes won't be easy. The bank, Europe's largest in terms of assets, is saddled with a struggling asset-management operation, a \$13.5 billion portfolio of poorly performing corporate investments, and a money-losing network of retail banks. Big acquisitions in recent years—such as the 1999 takeover of Bankers Trust Corp.—have left it with

indigestion. And it's plagued by sky-high costs. Internal squabbles will make the task tougher: A series of rows between Deutsche's traditionalists, who want it to stick to the German way of doing business, and modernizers, who want to remake it as a U.S.-style institution with a U.S.-style CEO, have unsettled the bank. That split will widen if Ackermann pursues his radical idea of moving Deutsche's headquarters to London.

Ackermann has remedies for all these ills, but his top priority is to get the stock price up. He told senior colleagues May 3 that he wanted Deutsche back among the top five banks in the world as measured by market capitalization. That would mean more than doubling the bank's current \$42 billion value, which doesn't put it in even the top 20. "Shareholder value is the top priority," he says. The stock is off about 25% since its peak early last year, but it has gained ground since last fall, when Ackermann, who was tapped for the top post two years ago, began plotting a new course.

Bulking up the company's value won't keep just shareholders happy, it will dangle a carrot in front of top-level staff, who are paid partly in stock. A higher share price would also shield the bank from predators. Colleagues say Ackermann was unnerved in February when Citigroup proposed that the two banks consider merging, a suggestion he rebuffed.

JOSEF ACKERMANN

BORN Feb. 2, 1948 in Mels, Switzerland.

EDUCATION A doctorate in social sciences and economics from St. Gallen Graduate School of Economics.

CURRENT POSITION Managing board member in charge of investment banking at Deutsche Bank since 1996. Takes over as CEO on May 23.

CAREER Joined Crédit Suisse in 1977, working in New York, Zurich, and London. Became CEO of Crédit Suisse in 1993. Ousted in reorganization in 1996.

FAMILY Married to Pirkko, who he met at university.

Ackermann would love, however, to emulate Citigroup. He wants Deutsche to have the same broad array of businesses, and he wants the same pay that Citigroup Chairman Sanford Weill wields. On the second point, Ackermann will have his way. On Jan. 10, Deutsche unveiled a plan to create a new executive committee, chaired by Ackermann, that will run day-to-day operations. That's a major departure

VIVENDI'S MESSIER LOOKS BOXED IN

Debt weighs on the company, but he can't sell off many units

How much worse can it get at Vivendi Universal? On Apr. 24, Jean-Marie Messier, its beleaguered chief executive, seemed poised for a rebound, after facing down protests at the company's annual meeting and winning a vote of confidence from the board. But since then, the slide in Vivendi's share price has only accelerated. The stock has lost almost one-third of its value in just the past month. **MESSIER: The Here's a look at some forces credit rating is driving the stock price down, just above junk**



and Messier's take on the situation.

Why are Vivendi's shares taking such a beating?

That's a good question, considering that the fundamentals look pretty good: Vivendi reported a 27% rise in first-quarter operating earnings, to \$399 million, on sales of \$6.5 billion. Part of the problem is that Vivendi is a far-flung conglomerate. Even experts have trouble picking apart its financials. But a bigger problem could be Messier himself. While shelling out more than \$50 billion for Seagram Co. and other acquisitions over the past two years, he rhapsodized about creating a digital powerhouse, streaming entertainment over cell phones and TV sets. But the dream hasn't materialized. Vivendi recently wrote down \$13 billion in assets and is struggling to pay down an \$18 billion debt.

Now, Vivendi shares are caught in a downward spiral. Messier hedged some past transactions with off-balance-sheet agreements, wagering that Vivendi's share price and debt rating would stay high. But the downdraft worried Standard & Poor's, which recently lowered Vivendi's credit rating after determining that at its current share price Vivendi will have to pay out nearly \$1.1 billion by next January to cover options agreements. In addition, S&P reckons Vivendi will face upwards of \$4 billion in extra liabilities if its credit rating drops another notch, to junk level.

With the stock this low, isn't Vivendi vulnerable?

The immediate risk is that it will be broken up. Vivendi's market cap now hovers around \$27 billion, which most analysts figure is about half the book value of its combined holdings. Indeed, analysts say that Vivendi's U.S.-based entertainment assets alone, including Universal Music Group, Universal Studios, and the recently acquired cable-TV properties of USA Networks, have a book value close to \$30 billion.

So what's stopping a breakup?

Pulling Vivendi apart would be devilishly complicated. On paper, Universal Music is a gem: the world's biggest music company, with a market value of close to \$9 billion. But antitrust regulators

would almost certainly bar another music major from acquiring it. Meanwhile, French government authorities would most likely block a foreign company from acquiring French assets such as pay-television company Canal+ or utilities unit Vivendi Environnement. Because of such political considerations, even Messier has not been able to lighten his stake in Vivendi Environnement as fast as he would like—a predicament that has complicated his drive to cut the debt.

But couldn't a determined raider find a

VIVENDI'S FALL FROM GRACE



Data: Bloomberg Financial Markets

By David Fairlamb in Frankfurt

way to overcome such obstacles?

Perhaps, but who would it be? Most leading media and communications companies are in no shape to go on the prowl. Most likely a takeover would require a team effort. There has been speculation that Hollywood mogul Barry Diller, who now heads Vivendi's U.S. film and television unit, could join forces with outside investors to break up the company. But Diller says he has no interest in such a deal. "There will be no split-off," he told Reuters on May 7.

Can Messier hold on to his job?

At its meeting in April, insiders say, the board gave Messier until the end of this year to get the company back on track. Apparently, board members are still prepared to abide by that deadline, although some are feeling the pain of the share slide. Among the worst hit are Edgar Bronfman Jr., along with other members of the Bronfman clan, who, following Messier's acquisition of Seagram Co. in 2000, own 6% of Vivendi. The value of their combined stake has fallen by two-thirds since then. Other major shareholders, including executives of big French companies such as Saint-Gobain and bank Société Générale, are hurting, too. "Our patience is wearing thin," says one board member. That's understandable. But no matter how precarious his position looks, neither Messier—nor Vivendi—will be easily toppled.

What does Messier say?

Messier points out that Vivendi's share price decline, while sharp, is in line with that of Vivendi's rivals. Hedge funds, he says, have been ignoring Vivendi's strong fundamentals and playing games with the stock. And the prospect of more accounting surprises? "We have disclosed all the off-balance sheet items," he says, "but not all of them were understood." Messier stresses that Vivendi's finances are sound: "We have taken steps to reduce debt, so we have no liquidity risk if we are downgraded." And he pleads for patience: "We need five to seven years to implement [our strategy], but the market changes its mind every six months." To break up the company, he adds, would take years too. Meanwhile, he says, the vast majority of the board supports his strategy and his team. If he's right, the Messier saga is far from over.

By Carol Matlack in Paris, with John Rossant in Paris, Tom Lowry in New York, and Ron Grover in Los Angeles

COMMENTARY

By Chester Dawson

GHOSN'S WAY: WHY JAPAN INC. IS FOLLOWING A GAIJIN

Carlos Ghosn, the CEO and president of Nissan Motor Co., is everywhere you look in Japan: lecturing audiences such as the Japan Association of Corporate Executives, beaming from the pages of a comic book, *The True Story of Carlos Ghosn*, and signing copies of his book, *Renaissance*—which in Japan is outselling Jack Welch's autobiography. *Ghosn-Ryu*, or Ghosn-style, has entered the popular lexicon as shorthand for the take-no-prisoners restructuring this French-trained executive imposed at Nissan.

No one questions that Ghosn's prescriptions have worked. On May 9, Nissan, which is controlled by Ghosn's former and future employer, Renault, reported record earnings of \$3.8 billion on sales of \$47.7 billion. Nissan's stock is soaring: Its March subcompact in Japan and Altima sedan in the U.S. are hits.

But Ghosn's real success will be measured by just how much the rest of Japan Inc. learns from him. And while Corporate Japan is not professing a debt to Ghosn—the idea of publicly praising a *gaijin's* style is just too much—it's clear Japanese companies are watching closely. "Ghosn's results have raised the bar for companies in Japan," says Michael Garstka, vice-president with consultancy Bain & Co. in Tokyo.

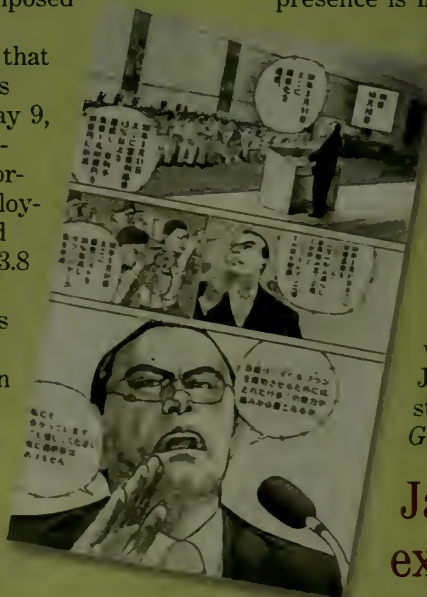
The result is the quiet spread of the Ghosn influence. Take Big Steel, which had trimmed little capacity until Nissan announced it would deal with fewer mills. "Steel companies had been dawdling for years," says Robert Feldman, chief economist at Morgan Stanley Dean Witter & Co. in Tokyo. "Then Nissan comes along, and that triggered a restructuring."

Thanks in part to Ghosn's gut-

wrenching changes, traditions such as lifetime employment and seniority-based promotion are dying out. The most recent company to adopt merit-based promotion is Canon Inc. A recent survey of 805 companies found that less than a fifth plan to keep lifetime employment. Even mighty Toyota Motor Corp. has heeded Ghosn's siren call. "Toyota has taken a page from Nissan, demanding price cuts from suppliers like us," says Akio Kosai, chairman of Sumitomo Chemical Co. "Ghosn's presence is like a storm wind."

Many companies have also followed Ghosn's moves to dump cross-shareholdings in partners and sell noncore businesses—in Nissan's case, its aerospace operation.

There's a long way to go. Most Japanese companies still fail the test of *Ghosn-Ryu* when it



Japanese execs are now imitating

the Nissan CEO's slash-and-burn style

GHOSN: COMIC-BOOK STAR

comes to achieving superior margins and return on equity. But maybe these laggards will wake up as Nissan's taskmaster-in-chief shifts into second gear. He now wants an additional 15% cut in purchasing costs and zero net debt. Ghosn keeps raising the bar. One way or another, Japan Inc. has to learn how to juggle

Dawson reports on the Japanese auto industry from Tokyo.

Gary Robertson
Chief Technology Officer
Delphi

It's not just e-Business. It's Real Business.

DELPHI

Living Tomorrow's Technology

COMPANY

Delphi – www.delphi.com

BEST KNOWN FOR

World leadership in high-tech automotive components

BUSINESS PHILOSOPHY

Gain customer loyalty by providing innovative and quality vehicle products

DEFINING INTERNET MOMENT

When NetMarketing named Delphi's Web site one of the 200 Best Business-to-Business Sites in 2001

RESULTS

Leveraging its extensive vehicle systems knowledge, Delphi, a Fortune 100 company, has long been a leader in delivering high value product solutions to meet complex customer needs. After teaming up with Digex in March of 2000, Delphi now uses the Internet to link buyers and sellers of automotive solutions and consumer electronics. With a presence in forty-three countries and over forty joint ventures, Delphi has come to rely on their online systems as an essential means of customer and relationship communications.

Digex provides full management of the delphi.com online business-to-business exchange while Delphi focuses on its mission: Being the global leader in mobile electronics, transportation components and systems technology.

To learn more about Digex, the company that Gartner Inc. listed as a leader in the industry for a second year in a row,* call **1.866.344.3997** or visit **www.digex.com/hosting**.



Managing Business on the InternetSM

COMMENTARY

By Margaret Popper

LOW SAVINGS? BIG DEAL

At first glance, the meager U.S. savings rate would seem cause for worry. After all, a country that spends without saving for the future will eventually run into trouble. It's only common sense.

But the 1990s convinced many economists that the U.S.'s ability to fund investment doesn't depend on its own savings. From 1996 to 2001, the U.S. household savings rate averaged 3.1%, the lowest among major industrialized economies. Yet gross domestic product grew an average 3.6%—faster than all major U.S. competitors (charts).

True, the household savings number understates what Americans are socking away. The published figure omits capital gains from equities and housing while subtracting capital-gains taxes. But the same pattern shows up for the broader category of national savings, which includes not only household savings but also retained earnings and depreciation by businesses, as well as government budget surpluses. The national savings rate averaged only 18.1% from 1996 to 2000—almost three percentage points lower than the rate for the European Union. But that didn't stop the U.S. from having one of the great investment booms of all time.

What's happening is that capital markets are becoming increasingly global. The regulatory and informational barriers that restricted investors to their own countries have mostly vanished. Capital flows freely across borders, moving to countries where it can get the best returns, not the place where the savings are. "Compared with the 1980s, there has been more and more deregulation of international capital markets," says Srinivas Thiruvadanthai, director of research at the Jerome Levy Forecasting Center in Mount Kisco, N.Y. "That's why we had this explosion of cross-border

capital movements in the 1990s."

In such a world, there's no reason why higher savings should be a major plus for the growth of an individual economy. Japan had an average household savings rate of 11.4% from 1996 to 2001 but grew only 1% a year.

Even if U.S. households become big savers, there's no guarantee that domestic investment would rise. Multinationals can easily use money raised in the U.S. to build factories abroad. The link between domestic savings and domestic investment is weak and getting weaker.

The price of depending on foreign capital

to fund investment: Foreigners own a rising share of U.S. assets. The low savings rate also leaves the U.S. hostage to global capital markets. If it loses its growth edge, funds could go elsewhere.

For now, global investors are cheerfully funding everything from

housing to corporate investment to government spending in the U.S. Foreign investors bought \$355 billion in corporate bonds and equities last year—more than the \$276 billion total purchased in 2000. And mortgage securities issued by Fannie Mae and Freddie Mac, with their implicit government guarantees, have become the prime choice of many foreign investors. That translates into easy

mortgage credit for U.S. households.

With U.S. productivity up a huge 4.3% over the past year, funds from overseas shouldn't stop

anytime soon. "Money is flowing to the U.S. because people perceive us as a good place to invest," says Princeton University economist Alan S. Blinder.

Some pessimists say that perception is changing. Foreign portfolio investment slowed in January and February, to a \$1 billion monthly rate, down from the \$44 billion monthly rate of 2001. And weakness in the dollar could indicate waning confidence in the U.S. economy (page 44).

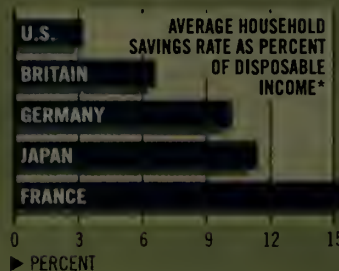
Still, over the next couple of years most economists predict slower growth for both Europe and Japan than for the U.S. Even after they recover, Japan and Europe will suffer from rigid

labor markets and regulated economies, which make them less desirable investment targets.

The U.S. may eventually compete for funds with emerging markets that offer faster growth but with more risk. For now, though, the low U.S. savings rate isn't too worrisome.

Popper covers the economy.

THE U.S. LAGS IN SAVINGS...



...BUT HAS STRONG GROWTH



Data: BEA, OECD

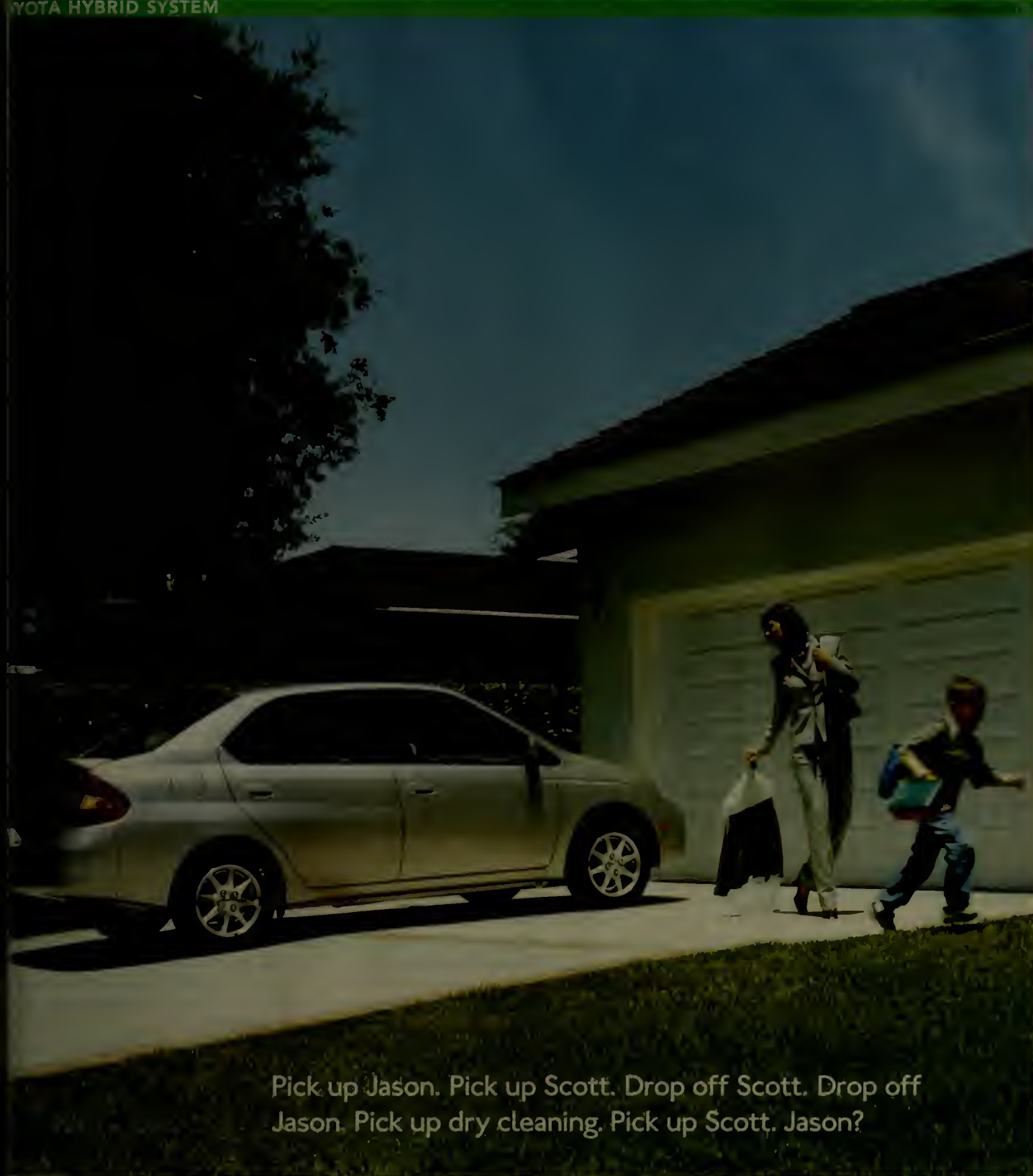


F E 566mi

CO₂ 1/2NO_x 1/10

SULEV

TOYOTA HYBRID SYSTEM



Pick up Jason. Pick up Scott. Drop off Scott. Drop off
Jason. Pick up dry cleaning. Pick up Scott. Jason?

gasoline/electric hybrid Prius. It drives efficiently even when you don't. It combines a super-efficient gas engine
an advanced electric motor that never needs to be plugged in. It idles less, so it wastes less energy. It even comes with
able GPS navigation. All of which makes Prius a more intelligent way to drive. So you can concentrate on other things.



GET THE FEELING. TOYOTA.

*toyota.com/prius

52/45 MPG* PRIUS | genius

Figures based on 2001 EPA estimates. City/hwy MPG. Actual results may vary. SULEV-certified for California and some Northeastern states. ULEV-certified for the rest of the country. For more
information, please see www.arb.ca.gov. ©2001 Toyota Motor Sales, U.S.A., Inc.



FUND-RAISING

CAN MR. SOFT MONEY RESCUE THE DEMS?

The DNC's Terry McAuliffe faces a Herculean financial task

For a party that likes to champion the little guy, the Democrats have a big problem. For years, Republicans have dominated the competition for small donors, leaving Democrats increasingly reliant on a clique of wealthy, big-dollar benefactors, primarily from Wall Street and Hollywood, to fuel operations. Now, with the new campaign-finance reform law banning huge "soft money" contributions after the fall elections, Democrats are confronting a Darwinian challenge: adapt or face financial extinction. "This has to do with the survival of the party," warns Democratic National Committee Chairman Terry McAuliffe.

As DNC chairman, the wealthy upstate New York

entrepreneur, who has started companies involved in real estate, banking, insurance, and marketing, is at the center of a financial and technological challenge unlike any faced by a national party in modern times. He has the daunting task of leading his party into the unknown

McAULIFFE: post-reform era
He's banking erasing more than \$
on better lion in debts. What's
databases when McAuliffe, 45,
the top job 15 months

he quickly learned that the money between the parties was compounded a serious technology deficit at the

While Al Gore got 51 million votes in 2000, the party had only 400,000 names in its database (thousands of whom moved or died). It had e-mail addresses for just 70,000 voters—vs. 1 million for the GOP. "Something was fundamentally wrong," McAuliffe says. "The Democratic Party has 21st century ideas, but we had Stone Age technology."

Is McAuliffe the right person to modernize his party? The good news: Democrats: Their boss is a prodigious fund-raiser who has wheedled more than \$600 million for party causes over the years. But his specialty—raising tens of millions in unlimited soft money contributions from wealthy individuals, unions, and corporations—will be relegated to history's scrap heap in 18 months. And McAuliffe is untested in the brave new world of hard money where cash must be solicited from individuals at \$2,000 a pop and unions and corporations are limited to \$5,000 in political action committee donations.

What's more, the energetic fundraiser has been dogged by ethics complaints ranging from the illegal foreign contributions to the 1996 Clinton-Gore campaign, where he served as finance director, to his past role as a consultant to Winnick, CEO of bankrupt telecom company Al Crossing Ltd. Despite his skills, party activists think his wheeler-dealer image sends the wrong signal to voters. "The Democratic Party should be helping people in need and not using your connections to enrich yourself and your friends," says former consultant Jennifer Laszlo Mizrahi.

Undeterred by his critics, McAuliffe

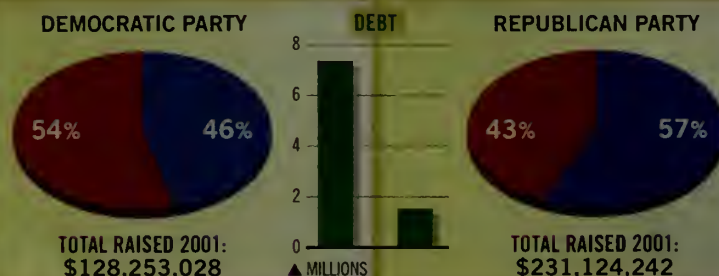
is forging ahead with plans to modernize party operations. Among his priorities: building a network of "collectors" committed to raising \$25,000 in contributions, much like the "Pioneers" who helped George W. Bush raise more than \$20 million in 2000. McAuliffe's ambitious goal: "Replace \$1 billion in soft money with hard money."

Without his mega-money events that grossed upwards of

DEMOCRATS' MONEY WOES

Republicans get more of their campaign cash from small donors and are less reliant on soon-to-be illegal soft-money contributions

■ SOFT MONEY ■ HARD MONEY



Data: Center for Responsive Politics



©2002, Fannie Mae. All rights reserved. The house logo is a registered mark of Fannie Mae.

**There are many things to celebrate in America.
With the help of Fannie Mae,
our housing finance system is one of them.**

When it comes to housing finance, we've created something special here in America. Because only in America can a home buyer easily secure a 30-year, fixed-rate mortgage with a low down payment.

Without Fannie Mae, this wouldn't have been possible over the years. Our main focus has always been to make mortgages more affordable.

In many other countries home buyers don't have access to long-term, fixed-rate mortgages.

And in the United States, families can become home buyers with as little as three percent down. In Germany, a typical down payment is 30 to 40 percent. In Japan? It's 50 to 60 percent.

At Fannie Mae, we believe the American Dream should be an attainable dream. So we're working to make housing affordable for more and more Americans. And that's something worth celebrating.

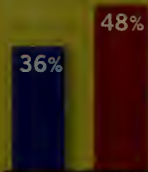
 **FannieMae**
www.fanniemae.com

million, McAuliffe plans to launch a series of concerts and smaller festivities featuring celebrities such as comedian Chris Tucker and salsa singer/actor Ruben Blades. These events are designed not only to raise money but also to expand and rejuvenate the party's mailing list, now dominated by retirees. The DNC also plans to use its Web site to simulcast these concerts and offer interactive receptions in exchange for a small donation and an e-mail address.

The model for this new strategy: an

Share of individual contributions from donations of \$200 and under

■ DEMOCRATIC PARTY
■ REPUBLICAN PARTY



Data: Center for Responsive Politics

Apr. 24 gala that raised \$2.7 million at Harlem's Apollo Theater and featured former President Clinton, Michael Jackson, Tony Bennett, and k.d. lang. A second concert is planned for Washington's MCI Center on Oct. 8.

But glitz and glamour only go so far. McAuliffe will depend on a greatly expanded database to yield hundreds of thousands of new donors. Already, he says, the party has expanded its e-mail list from 70,000 to about a million, and will have cataloged 43 million potential Democratic voters by the end of June.

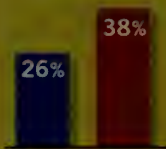
Party officials think they're seeing a return on McAuliffe's \$10 million-plus tech investment. The DNC raised a record \$27.5 million in the first quarter of 2002, including a best-ever \$8.1 million from direct mail. Still, Republicans more than tripled the DNC in hard money. And skeptics still wonder if McAuliffe's efforts are more rhetorical than real. "Every Democratic chairman says the right things, but they never get it done," says former Republican National Committee Chief of Staff Tom Cole.

In the end, talk won't be enough. With new campaign rules taking effect and a prolific GOP fund-raiser in the White House, McAuliffe has little room for error. The master of soft money will either adapt to the changing times or go down in a long line of DNC bosses who talked big but failed to deliver.

By Richard S. Dunham
in Washington

Share of hard money from donations of \$200 and under*

■ DEMOCRATIC PARTY
■ REPUBLICAN PARTY



*INDIVIDUAL AND PAC DONATIONS INCLUDED

Data: Center for Responsive Politics

CORPORATE GOVERNANCE

A QUIET GURU'S ENORMOUS CLOUT

The views of Jamie Heard's ISS can tip the balance in proxy fights—such as the recent one at HP

Mar. 5, 2002, was a momentous day for Institutional Shareholder Services Inc. After months of poring over documents and listening to company pitches, ISS analysts were ready to deliver their crucial verdict on the most contentious proxy battle in years: Hewlett-Packard Co.'s bid for Compaq Computer Corp. But when ISS, which advises pension and mutual-fund managers how to vote in proxy disputes, broke the news that it had decided to support the merger, there was one key person who stayed in the background. That was ISS Chief Executive James E. Heard, the most influential, least visible corporate governance expert in America.

At a time when boardroom ethics is the hot-button issue of the day, ISS wields more clout than ever. But while ISS may be in the limelight, Heard certainly is not. It was Vice-President Patrick McGurn and Director of U.S. Research Ram Kumar who faced the reporters and camera crews in March. While they prepped, Heard, who looks more like a college professor than a corporate power broker, made sure the HP

report went out by e-mail to clients first. "The people who do the work should get the attention," he says.

Heard may shun the cameras, but don't be fooled: The Louisiana native is the reason investors were hanging on McGurn's and Kumar's words. Over the past decade, Heard, 56, has built ISS from a boutique firm into a profitable, powerful business. With his mild-mannered demeanor, no one would ever call him a rabble-rouser—which is probably why he has been so effective in reconciling shareholder desires with management prerogatives. "Jamie's very cool, very organized in his thinking," says Charles M. Elson, director of the University of Delaware's Center for Corporate Governance.

Today, ISS keeps tabs on 20,000 U.S. and foreign companies for nearly 1,000 corporate and institutional clients. Money managers say advice can swing as much as 25% the votes in proxy contests. The privately owned company, in which Heard has a 6% stake, has annual revenue about \$30 million. As Heard tries to keep ISS growing, though, he faces a governance issue of his own. Cautious that ISS's move into corporate consulting presents potential conflicts of interest, since ISS also evaluates the companies' proxies for its clients.

HOW ISS WEIGHED IN ON THE BIG BATTLES

HEWLETT-PACKARD

Backed HP's plan to buy Compaq over the objections of board member Walter Hewlett. The merger was approved due in part to ISS's decision and CEO Carly Fiorina's lobbying.

WILLAMETTE INDUSTRIES

Sided with Weyerhaeuser in its year-long, and ultimately successful, hostile bid for rival Willamette.

CA prevailed, though it has followed some recommendations.

COMPUTER ASSOCIATES

Initially supported management against dissident Sam Wyly, who accused CA of questionable accounting and wanted control of the board. ISS later switched sides when Wyly's slate shrank to four board seats.

CA prevailed, though it has followed some recommendations.

HERCULES

Opposed the succession by businessman Sam Heyman for four board seats. Heyman accused the board of incompetence and demanded a planned sale of Hercules.



JAMES E. HEARD

BORN Feb. 12, 1946,
White Castle, La.

EDUCATION AB, government, Harvard College, 1968; JD, George Washington University, 1975.

CURRENT JOB CEO, Institutional Shareholder Services, which advises pension and other fund managers how to vote on proxy issues.

FIRST JOB Kept tabs on black voter registration in Jackson, Miss., for the American Civil Liberties Union.

CAREER START Pioneered research on corporate governance issues at the nonprofit Investor Responsibility Research Center in the '80s.

ABUSE HE HATES THE MOST Over-the-top executive pay packages, especially for underachievers. "The parade of executives who left Global Crossing with multimillion-dollar payoffs is just obscene."

FAMILY Married to Ellen, an education consultant; two grown children, Sarah and Nicholas.



Until now, Heard has stood happily in relative obscurity in his office in Rockville, Md. But the public furor over corporate excess, sparked by the demise of Enron Corp., is changing that. The Securities & Exchange Commission has put small-fund managers on notice that they must vote their proxies, and over-the-top shareholders have also become more vocal. These days ISS has a near monopoly on the proxy advice business in the U.S. "This is the best opportunity we've had in 20 years to make changes" and strengthen corporate boards and audit committees, Heard says.

Although he doesn't consider himself a shareholder rights advocate—he does lobby Congress—Heard believes fervently in a system of checks and balances. Fat executive-pay packages, particularly when they go to poor performers, really gall him. "The parade of executives who left Global Crossing with multimillion-dollar payoffs is just obscene," Heard says. He's especially proud that ISS's tough stance on dilution has persuaded some companies to scale back pay plans. "People came to Jamie to crystallize how institu-

LIGHT READING: Heard stands amid annual reports and proxy ballots

tional investors feel," says Kenneth A. Bertsch, director of corporate governance at Teachers Insurance & Annuity Association-College Retirement Equities Fund.

However outraged Heard may be, he has not been one to make provocative gestures. At Harvard in the '60s, where he majored in government, Heard thought the Vietnam War was "immoral and stupid," but he never considered, say, burning his draft card. "We were raging moderates," says Arn Bortz, a former roommate and ex-mayor of Cincinnati. When Heard thought he would be called up, he volunteered for the Navy but was rejected because of a minor medical condition.

Heard became interested in governance issues while studying law at George Washington University. At the nonprofit Investor Responsibility Research Center, he won renown among shareholders for detailing how managements pressured institutions to vote their way. "Practically all the early shareholder activists were educated by Jamie and his troops," says Peg O'Hara, managing director at the Council of Institutional Investors. Heard joined ISS in

1991, at the urging of founder Robert A.G. Monks Sr. and his partner, Nell Minow, both of whom wanted out so they could focus on shareholder activism. After the Monks family sold ISS to Thomson Financial in 1996, Heard and a few colleagues acquired its smaller rival, Proxy Monitor. Last summer, Proxy Monitor bought ISS in a deal valued at \$45 million.

These days, Heard spends much of his time trying to develop new business and leaves proxy decisions to a team of 70 analysts. Managing growth without compromising ISS's integrity will be a challenge. Already, some clients fret that ISS became too powerful after its merger. To those worried about ISS's corporate consulting, which now consists mainly of online evaluations of pay plans, Heard replies that a Chinese wall separates analysts from consultants. He adds that ISS recommendations on compensation proxy proposals go against its clients 25% of the time. In June, ISS will unveil a new product: a corporate governance scorecard that will rate companies against their peers on a scale of 1 to 100. But when ISS announces which company ranks lowest, don't expect to hear it from Heard.

By Amy Borrus in Rockville, Md.

The business intelligence test that Business Objects doesn't want you to take.

1. Want a Free Test Drive?



Brio Software deploys faster because it is easier to use and manage than Business Objects. And the people who have Brio overwhelmingly report that it's so intuitive that they actually use it. Without requiring training. (Maybe that's also why 69 of the Fortune 100 use Brio.) So, to pass Part One of this business intelligence test, see if *you* can use it. Take our Free Brio Software™ Test Drive.

- ☐ Email a request to testdrive@brio.com
- ☐ Register at www.brio.com/testdrive
- ☐ Call us at 1-877-BUY-BRIO (1-877-289-2746)

2. Want a Free Buyers' Guide?



Finally, somebody explains business intelligence in plain English—including the many hidden costs that our competitors may not want you to take into account. So, to pass Part Two of this business intelligence test, get *The Intelligent Guide to Business Intelligence*.

- ☐ Email a request to guide@brio.com
- ☐ Or call us at 1-877-BUY-BRIO (1-877-289-2746)

3. Want all of the above?

Join the 2 million people at 10,000 customer sites who've already passed this test.

- ☐ Call and ask for both at 1-877-BUY-BRIO (1-877-289-2746)



The Business Performance Software Company™



Making Profit Out of Data

**BUSINESS INTELLIGENCE
HELPS THE DATA IN
EXISTING SYSTEMS
GENERATE ADDITIONAL
REVENUE.**

Companies know much more than they think they know. Today's challenge is to optimize that knowledge for greater strategic value.

Any company that does business accrues data. And that data is everywhere in the business, stored in locations that can be continents apart and can range from banks of filing cabinets to disparate databases to the heads of long-time employees.

That data is a valuable resource and it likely is an underutilized one, as well. When information can be converted into intelligence that benefits the top- or

bottom-line, the business value can be enormous. Companies that can analyze precisely what they know about their customers and business partners, their supply chains and their operations are then able to make decisions that cut costs, speed time-to-market and increase revenue.

Just ask Penske Logistics, a subsidiary of Penske Truck Leasing. The company offers transportation and supply-chain management services and is the one of the largest logistics providers in North America.

Penske Logistics maintains a fleet of more than 2,500 trucks. Thanks to its business intelligence (BI) system, executives are able to monitor performance using data drawn from five business systems, including one that tracks its trucks on the road.

The combination of an extranet and Web Intelligence — an integrated query, reporting and analytical processing tool from Business Objects — makes it possible for Penske Logistics to not only deliver company intelligence to company decision-makers but also share that daily logistics data with key partners.

The Web Intelligence/extranet system delivers a competitive edge for the company by supporting a much more intimate partnering with customers, sharing with them all the company's internal performance and efficiency analyses.

"We're wearing our business on our sleeve," says Tom Nather, senior systems analyst for Penske Logistics in Cleveland. "If something goes wrong, we can help our customers understand why and we can correct it."

Defining Business Intelligence

Much of the data that companies possess is generated from business systems — from transactional, customer relationship management (CRM), financial and enterprise resource planning (ERP) tools. Unfortunately, though, the data from each business system is likely to be stored in associated databases, which means that the information needed to analyze company business patterns is scattered. That makes it virtually impossible to pull data together quickly to produce a multifaceted picture of customers, partners, suppliers or business events.

Business intelligence systems were developed to help companies access, analyze and, above all, use the data they collect. Deploying a BI system thus involves identifying the places where that data resides and frequently "cleaning" it, as well, so all the references to

BUSINESS INTELLIGENCE GLOSSARY

Business Intelligence

A business strategy that integrates and analyzes operational data from an array of internal sources to improve decision-making and competitiveness.

Business Performance Management

The use of business intelligence-derived operational metrics, ranging from ad hoc yardsticks to Six Sigma or Balanced Scorecard, to measure company performance.

Data Warehouse

A database structured to store tactical information that can be used to answer specific questions about transactional company history.

Knowledge Management

A broad strategic approach to identifying and using a company's knowledge to improve its efficiency. One subset of knowledge, structured data, can be managed using business intelligence tools.

OLAP

Online analytical processing tools take a complex, multi-dimensional view of aggregated data to quickly yield strategic information. The power of OLAP tools is predictive, in answering "why?" and "what if?" questions.

Structured Data

That subset of a company's data that is stored electronically in databases and thus can be accessed by data field.

a customer or supplier follow the same format. BI systems often centralize selected data in a large, specially designed database called a data warehouse. Anyone with access to the BI system can ask questions about business performance. And BI systems make it not only possible, but easy to do both historical and forward-looking analyses of business patterns quickly.

How is it known whether a company needs a BI system? Rob Stephens, a business intelligence strategist at SAS Institute, a business software systems vendor in Cary, N.C., suggests this yardstick: "If two different vice presidents in two different divisions go after the same data and come up with inconsistent results, then you need to do something."

Business intelligence is about getting good operational control over your business to maximize top-line revenue growth or to control customer costs, says Sanju Bansal, chief operating officer at MicroStrategy, which sells business analytics products and services from its headquarters in McLean, Va. He notes that when a company has the ability to know who a customer is, for example, a sales rep or customized Web page can use that intelligence to maximize cross- and up-selling opportunities.

Effective integration of data sources is critical to an effective BI implementation, says Keith Gile, a BI specialist who is senior industry analyst at Giga Information Group in Norwalk, Conn. "Effective" is the key term, because the technology needs to deliver to executives both an integrated picture of business

processes and whatever specific analyses of the underlying data the executives need. "BI technology," notes Gile, "should invite me into the process." And the technology must deliver both data and analyses in the timeframe the business requires, rather than what the business systems allow. In other words, business needs must drive the technology.

Benefits of BI

The benefits of business intelligence can be as varied as the business plans of the companies that deploy it.

For Los Angeles-based International Rectifier, the oldest dedicated semiconductor manufacturer in the world, it was a single analytic tool that allowed it to develop both a single standardized definition of and a usable source for key business metrics such as revenue.

"It made a big difference for us," says Doug Burke, International Rectifier's senior manager, financial analytics. Now, he says, if a key metric is wrong, it's



**Otis wanted valuable
customer information at
the push of a button.**

(You know elevator people.)



At this very moment hundreds of thousands of people are riding one elevator. In fact, the global market moves 60 billion people.

The entire world's population — every nine days, but to elevate their own business, Otis turned to Cognos, the global leader of business intelligence.

Cognos helped Otis maximize an innovative Otis strategy that enables customers to design elevators online. With Cognos, Otis can transform their powerful customer data into useful, actionable information. Information that isn't in spreadsheets for the sales force, costly ad hoc marketing programs, and provides more responsive customer service. Ensuring that elevators are in travel in the only acceptable direction up.

Cognos — the business intelligence inside the world's most intelligent businesses.

Discover groundbreaking strategies for driving business performance. Order your free copy of *Right Principles for High Performance Business Today*.

COGNOS®
www.cognos.com/white

wrong in one place and can be fixed in one place. Since the company is, in Burke's words, "in acquisition mode," having this capability "has really made a big difference." The analytic tool used was Essbase, from Hyperion Solutions Corp.

Fossil, a Richardson, Texas, fashion accessories company, was looking for a way to manage and speed up its forecasting, budgeting and consolidation processes.

TIPS

Use a Common Language

Key metrics must be defined using a single set of standards. Revenue and cost of sales must mean the same throughout the company or the results will be inconsistent. And the older data is, the more riddled with errors it will be.

Executives judged these changes critical; budget creation was taking months because of Fossil's distributed operations and the multiple stakeholders involved. Deployment of the Cognos Finance tool gave the company a means to both simplify its financial processes and accelerate financial reporting. Since time is literally money, Fossil is realizing immediate value through its ability to accelerate its financial processes.

For Briggs & Stratton Corp. of Wauwatosa, Wis., the challenge was to figure out how to continue to manage its manufacturing processes without allowing the company's key ERP system to choke on the massive amounts of operational data it generated. B&S worked with SAS Institute to craft a data warehousing strategy that moves data from the operational system while keeping that historical data ready at hand. As a result, the system allows the company to continue to track via the Web the cost-effectiveness of its vertically integrated supply chain.

Sprint's driver toward BI was as straightforward as it gets. The \$23-billion, Westwood, Kan.-based, global communications company needed to be able to gather all the data about customers in its multiple data sources and analyze it to support sales and marketing efforts. When the BI system went live in the fall of 2000, Sprint officials report, it significantly improved the company's ability to not only roll out but be able to track on-the-fly, the effectiveness of campaigns to both attract and retain customers.

Starwood Hotels and Resorts Worldwide faced a similar challenge. With six different brands and more than 700 hotels in more than 80 countries, the company had lots of data flowing into its White Plains, N.Y. headquarters. Executives in several key positions needed analyses of that data to guide their resource commitments. Out of that need grew a deployment that replaced slow-turnaround third-party analysis and reporting with an effective, real-time, distributed decision-support system.

As International Rectifier, Fossil, Starwood Hotels and Resorts Worldwide and other companies have realized, it is important to distribute up-to-date information about an enterprise to many layers of the organization.

That realization is hardly a new one, though. Indeed, one of the abortive trends of business computing a decade ago was the Executive Information System — a category of executive tool that failed to catch on because it lacked an effective underlying BI system.

The efforts to make data consistent from different departments and various subsidiaries — as well as partners, suppliers and major customers — is continuing to fuel the longstanding hunger in executive suites for both operational and strategic intelligence. "The trend is to drive the power of information to the desktops of all the leaders and managers of an organization," says Mike Morini, chief operating officer of OutlookSoft Corp., a Stamford, Conn., vendor of analytic software tools. "By bringing consolidated financial information to the manager's desktop, in a collaborative way, they are able to act on that information in real time. That nimbleness provides more value to the organization."

And, MicroStrategy's Bansal notes, the state of business in recent months has been a driver, as well. "People are looking at cutting the bottom 20 percent of everything. But companies need to get visibility of those expenses first, then cut them. That's why business intelligence software has held up better than most items in this environment."

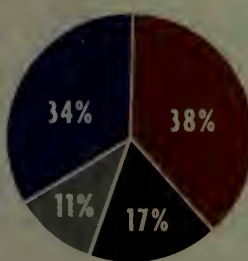
From Workgroup to Enterprise

Companies are collecting huge amounts of data from all aspects of their operations, notes Craig Brennan, president and CEO of Brio Software Inc., a business performance software vendor in Santa Clara, Calif. But, he notes, "most don't do much with the data to improve their performance or make better business decisions."

Much of the activity in the BI marketplace results from attempts by companies to integrate what can be a motley array of individual department- or workgroup-based BI tools to yield

(continued on page 9)

How Business Intelligence Dollars are Spent



- Financial Analysis
- Customer Relationship Management
- Supply Chain Management
- Other Enterprise Function

Source: Datamonitor



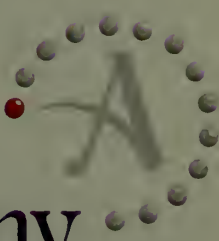
One of the top five computer companies doesn't use Autonomy

Will it become just a memory?

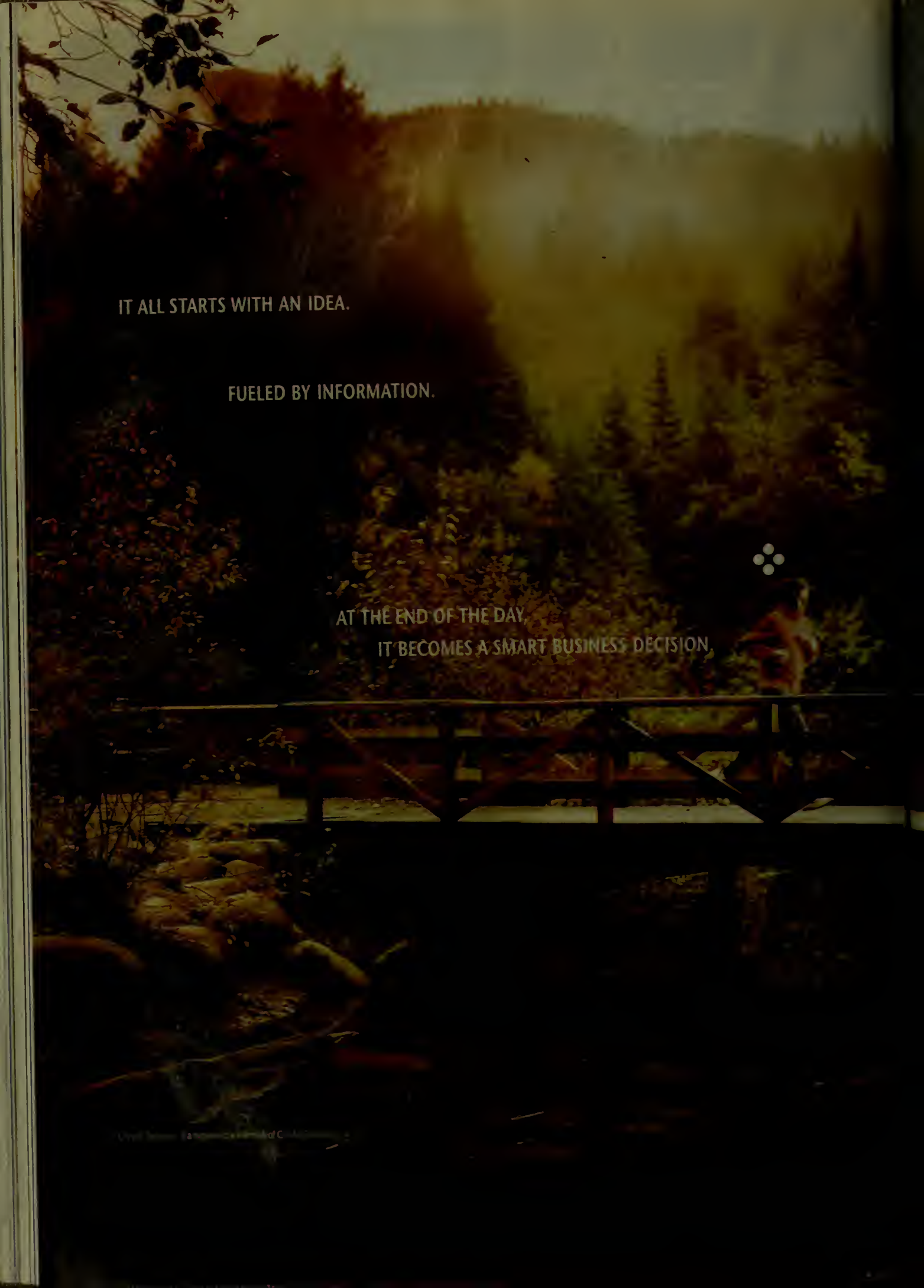
Now more than ever, companies must reduce costs and operate more efficiently. Autonomy's technology **automates** the applications - portals, business intelligence, CRM, e-business - that empower companies to use their core resources more effectively. With Autonomy's power, computers can understand the 24/7 deluge of digital information. E-mails, Web pages, documents, voice mails, pictures, audio files and

XML pages are categorized, prioritized and delivered without any manual intervention. No wonder that four out of the five top FORTUNE 500® computer companies rely on Autonomy to increase productivity and deliver **return on investment**.

To find out what ROI Autonomy can bring to your business, call us at **1-877-MYAUTONOMY** or visit us at www.autonomy.com



Autonomy®



IT ALL STARTS WITH AN IDEA.

FUELED BY INFORMATION.

AT THE END OF THE DAY,
IT BECOMES A SMART BUSINESS DECISION.





(continued from page 5)

unified, companywide intelligence. As Dave Kellogg, senior vice president of marketing at Business Objects, a BI vendor in San Jose, Calif., observes, "business intelligence has largely been departmental technology. CIOs are waking up to fact that they have gremlins, in the form of all sorts of little BI systems deployed." Why, Kellogg reports those executives are now asking themselves, are we buying from all these vendors and training all these administrators?

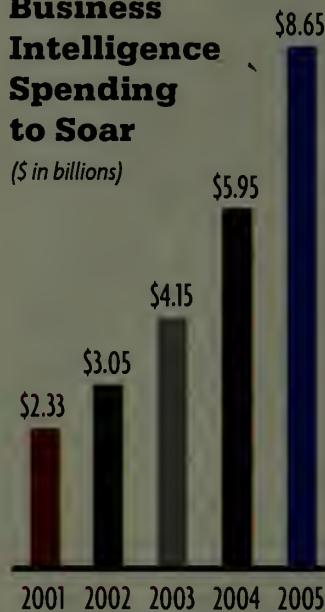
For Sprint, the path to BI was a business plan that required the company know as much as possible about all its customers. Acting on that mandate meant the long distance services provider had amassed a huge array of data sources.

When the company set out to rationalize its business intelligence infrastructure, reports Flint Craver, the Dallas-based systems development manager for Sprint, it worked with SAS Institute to extract data from as many as 35 different databases, ranging from old-style flat files on mainframes to SQL databases running on Microsoft Windows NT servers, into one massive central repository.

"We're seeing the building of a second wave of business intelligence," reports Andy Handford, vice president for products at Crystal Decisions Inc., a reporting, analysis and information delivery products company in Vancouver, B.C. "It consists of simplifying, consolidating, broadening. Companies now are asking, 'How does this all fit together?'"

Business Intelligence Spending to Soar

(\$ in billions)



Source: Datamonitor

Gaurav Dhillon, CEO of Informatica Corp., a Redwood City, Calif., data tools vendor, sees the same phenomenon — the centralization and standardization of data management — in hardware terms: "In the future, broad deployments of BI technology will shift toward the server side of the house."

Boston Properties Inc., a large commercial real estate company, needed to consolidate data in its J.D Edwards ERP system, which handles more than \$1 billion in tenant billings annually, with other data residing in a distributed IBM Lotus Notes/Domino workflow system and in SQL databases. Its goal? To deliver consolidated, rationalized information to almost 100 locations.

For its BI tools, Boston Properties worked with Crystal Decisions. According to Jim Whalen, the real estate company's senior vice president and CIO, a 10-person prototype

was up and running in three weeks. At the end of three months, between 60 and 70 employees had access to the new system. Boston Properties currently has 170 licenses and expects that number to grow.

"Companies like Boston Properties are most successful when they reduce the issue of taking control of their data to, 'What's the common need here?'" observes Crystal Decisions' Handford. "It usually comes down to something as basic as adding value to data reporting and getting that added-value information out to the right people."

Toward the Executive Suite

Over time, the business intelligence procurement process is moving up toward the executive suite. As senior executives demand systems that will give them performance metrics — and particularly warnings of looming problems — in real time, departmental BI tool deployments are giving way to RFQs for enterprise systems, reports Henry Morris, International Data Corp.'s Framingham, Mass.-based vice president for applications and information access. "Business process management is a C-level undertaking because it is an overall measurement and an early warning about business performance, rather than a very specific function like quality analysis."

The increased scrutiny of financial reports by Wall Street and regulators has put a premium on "better and more precise information," OutlookSoft's Morini adds.

Stamford, Conn.-based Hyperion Solutions' CTO John Kopcke agrees that BI acquisitions are now being viewed as enterprisewide and handled at a more senior level. C-level executives, he says, are now looking toward BI to leverage their back-office IT investments, which still aren't delivering promised returns.

TIPS

Clean Data Is Happy Data

The most difficult stage is fixing data discrepancies, such as a client's name spelled 10 different ways in different departmental systems. The cleansing process can take anywhere from several months to as long as a year.

Gartner Group Analyst Howard Dresner says he sees BI investments today being driven by the desire to both standardize and consolidate technology to make measuring company performance more effective. From the perspective of the executive suite, the point is obvious: If executive managers cannot evaluate performance enterprisewide using common yardsticks, they cannot easily make tactical — much less strategic — decisions.



How can you increase customer profitability?

Identify (and keep) your most valuable customers?

And get greater ROI from your marketing campaigns?

SAS® is all you need to know.

Only SAS provides you with a complete view of your customers. So you'll understand their needs, enhance their lifetime value and achieve greater competitive advantage. To find out how leading companies are reaping the rewards of SAS customer intelligence software, visit us at www.sas.com/customer.

The Power to Know.



But Crystal Decisions' Handford looks at it more in terms of creating a least-common-denominator platform that delivers base-level BI functionality as a starting point. "We've seen phased deployments be very successful, where they disassemble it down to the common denominator of a set of useful, accurate reports on which I can then start to build personalization, security, interactivity and ad hoc analysis," he notes.

Building an infrastructure on top of which people can selectively layer analysis and reporting tools to sat-

al data with the contents of a PowerPoint presentation or a Word document will represent a huge qualitative step forward toward true BI and toward the Holy Grail of an enterprise knowledge management system.

"There's a big drive to bring structured and unstructured data together," Morini says. "Linking the two together provides a documentation trail during the budgeting process. But you need a single unified approach to do that, a unified way to view information in various systems."

BUSINESS INTELLIGENCE BENEFITS

BENEFIT	SOURCE
Increasing Revenue	Identifying customer interests and buying patterns to support cross- and up-selling
Improving Customer Satisfaction	Real-time tracking of customer orders and accounts
Reducing Supply Chain Costs	Real-time or near-real-time tracking of operational metrics
Supporting Strategic Decision-Making	Monitoring financial metrics and analyzing data to test new possibilities

isfy their needs is, Handford says, the better way to go.

Karen Williams, director of product marketing at Cognos, an Ottawa, Ontario, enterprise BI software provider, notes that two of the areas in which a BI deployment can offer a value-add are financial reporting and CRM. "Many of our customers are starting to take some of their strategic goals and change those into metrics, then taking those metrics and deploying them to their users so they can track their performance within the organization. Once they see what's happening, what they require is reporting and analysis tools to really understand why whatever it is, is happening. So what they're doing is taking a broad range of business intelligence and focusing it on their core strategic goals."

Brio's Brennan agrees that "performance monitoring is definitely a component of business intelligence." You can do that in many ways, he notes, among them performance measures, operational measures and triggers of various kinds.

Integrating Data

Another aspect of corporate intelligence that will loom ever larger in the future involves dealing with data that isn't in a database-friendly format. There will come a time when "integrating data" means more than just being able to draw connections between pieces of information in two different databases. Linking relation-

For the moment, though, corporate executives who have been through the BI tool selection and deployment process urge that those currently contemplating it "not be driven by the flash," in the words of Briggs & Stratton Corp. project manager Grant Felsing.

The key, says Felsing, is not the tip of the iceberg — browser-based graphs and so on — but the iceberg itself. The operational data store is the crucial component, he says. Users need to make sure that the time is spent to understand what that iceberg will look like. "You're building a foundation you'll deploy several tools on top of. If you have that infrastructure in place, you'll be able to take advantage of it as opportunities to benefit from that analysis come along."

A foundation for what? The key to successfully implementing a BI system that will deliver a competitive advantage, says Edward J. Courtney, KPMG Consulting's managing director and chief knowledge officer, is to understand clearly what result the company is trying to achieve with the implementation.

"Are you trying to gain a better understanding of your customer's buying patterns by analyzing sales data, or are you trying to improve your win rate by gaining insight on your chief competitor's pricing?" Courtney asks. Without clearly articulated goals, he warns, executives face the trap of simply collecting data or running reports that not only offer no value to the business, but are extremely resource-intensive to support. ■



Sales when orders were
taken over the
phone or fax in 1990:

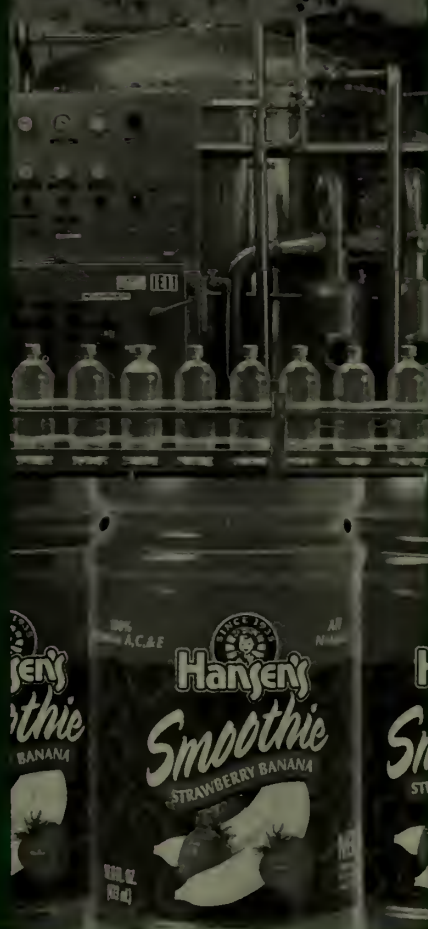
flat

Then
someone had the

best
insight.

Sales when orders
are taken
electronically in 2001:

effervescent



Healthy soft drinks, natural sodas, smoothies, and fruit juices. So what's a company like Hansen Natural Corporation doing with an old, cumbersome accounting system? A question answered when their Controller installed Best Software's MAS 90. Immediately, MAS 90 integrated the front and back office. Shipment schedules improved. And with their sales orders linked electronically and seamlessly with accounting, efficiency dramatically improved. Which is what happens when someone gets a key insight into their business. Another sparkling reason why more CPAs recommend Best than any other enterprise business management software. For all the details, visit www.bestsoftware.com/hansen

best

Act On Your Insights™

Business Intelligence, the Web Way

How to funnel the tons of data from Web visitors into something useful.

The future of business intelligence reporting involves Web access, whether via an intranet or portal within company walls, an extranet delivering targeted BI to partners or a Web site that allows executives on the go access to live information.

Web technology is useful in that it provides a low cost, widely available standard platform that can be used to make BI much more accessible to everyone. For example, a report need be published just once, and it will be accessible to everyone who needs it, day or night, from anywhere in the world.

BI and Web technology share the same fundamental goal of empowering users, says Ben Barnes, CEO of BI software vendor Sagent, in Mountain View, Calif. "At its essence, BI is focused on allowing users to access and analyze business-critical data, on demand, to make better decisions faster than the competition," he says. "Internet and Web technologies streamline the information gathering and delivery process. This advances the objectives of BI."

Advances in today's Java and application-server technologies allow data and report access using virtually any server and only a Web browser as a client, says Gaurav Dhillon, CEO of data tools vendor Informatica Corp. in Redwood City, Calif. "This new setup delivers a tenfold improvement over what could have been done in the past."

Controlling Access

One consequence of Web-enabled BI, though, is to intensify what was already developing into a major security concern: how to ensure that the resulting intelligence is safe from unauthorized viewing yet still freely available to anyone who needs it.

"Where an attack on an operational system could cause harm to numerous individual transactions," Barnes says, "an attack on the centralized business intelligence data could cripple an organization's strategic decision-making capability, forcing management to act without points of reference. Worse yet, this kind of

information in the hands of a competitor could be devastating" to the company.

With departmental deployments, the old model of application-based security using localized passwords appeared sufficient. But that model quickly broke down when the goal is to give users companywide access to integrated intelligence. Corporate management therefore, needs to understand the strategic importance of BI data and insist that corporate IT apply the same security policies and procedures to the company's BI systems as it does to its operational systems.

"Originally, IT went to the user table and decided to give user number one access to five key data tables," says Giga Information Group Senior Industry Analyst Keith Gile. "But what about users 100 to 300? And user 2,000, who needs access to those five tables and 15 others? The level of complexity expands out; more users make it exponentially more complex to define security."

It's a challenge that companies' IT apparatus must grapple with — quickly. "This," Gile says, "is an area IT will spend more time on, not less."

"An enterprise business intelligence plan must offer a flexible security model that increases efficiency by integrating directly with a company's existing security infrastructure and by supporting today's Internet security standards," adds Pete Cittadini, president and CEO of Actuate, which produces and sells information delivery products in South San Francisco. "Today's most ad-

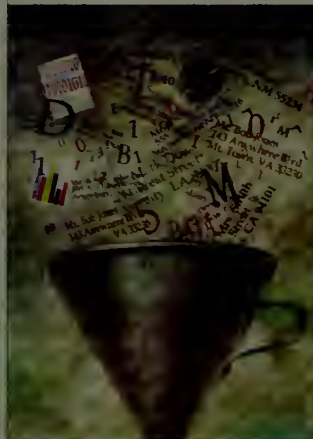
vanced business intelligence programs support direct LDAP (lightweight directory access protocol) integration and single sign-on capabilities, which is particularly important when delivering information to partners and customers in extranet and Internet environments."

If creating a simple, yet secure, wall-to-wall access system seems like a challenge, though, consider what's involved in extending

this beyond the enterprise. And the situation could grow worse before it grows better if Web services begin to spread rapidly. These services, which extend across the Internet and can let a subscribing customer or business partner appear to be running the application on his or her intranet, raise yet another level of security concerns.

In the context of the long-standing tension between deploying cutting-edge technologies that improve competitive positioning on the one hand, and making conservative choices to safeguard valuable data on the other, the Web offers companies some potentially uncomfortable choices.

Says Cleveland-based Penske Logistics' Senior Systems Analyst Tom Nather: "We don't want to be on the bleeding edge." ■



If business intelligence software is such a smart idea, why do only 5% of people use it?

The answer is simple: Business intelligence tools are expensive, hard to learn, and require special software on every desktop.

Actuate® Information Delivery solutions are different. They securely deliver personalized Web reports and full-function Excel spreadsheets to your employees, customers and partners. Each report is loaded with up-to-the-moment information that they can drill through and analyze with a click. And Actuate integrates seamlessly with your existing Web sites, applications and information portals,

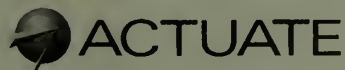
and supports any number of users on a high performance 24x7 basis.

Industry experts recognize Actuate as the most advanced and easy-to-use Information Delivery solution, and over 1,700 of the world's largest companies agree.

In other words, Actuate reliably and securely delivers the information your organization needs, without the high cost, steep learning curve, and desktop software overhead you don't want.

If you think you need business intelligence, look at Actuate, the intelligent business alternative to BI.

To find out more about Actuate Information Delivery solutions, visit or call us today.



www.actuate.com/business

info@actuate.com

1-800-914-2259

Copyright © 2002 Actuate Corporation. All rights reserved. Actuate is a registered trademark of Actuate Corporation.

CONSULTANT CHRIS SELLAND ON BI

The Bigger They Are, the Harder Their Data Falls

Conference chair says company size often dictates heterogeneous data problems.

The bigger your company is, says CRM and BI consultant Chris Selland, the greater the likelihood you need to consider business intelligence.

As one of three chairs of the upcoming DCI Enterprise Analytics & Data Warehousing Conference & Exposition, scheduled for June 19 through 21 in Boston, Selland is in a position to know.

"The larger the company," he observes, "the bigger the issues they have with heterogeneous data sources." That's because adding applications to improve business functioning can actually make data access problems worse.

"What a lot of companies don't realize," Selland notes, "is that every time you buy a new application, you get another database. And the last thing most companies need is yet another database."

If the company's goal is to analyze data from a number of sources, there are two ways to get there: by building a massive data warehouse to serve as a storehouse for data drawn from the operational databases, or by putting a BI layer across the systems themselves to make possible analysis of the data where it currently resides.

Each option comes with its own challenges, Selland notes, and executives exploring a BI deployment need to understand that those challenges aren't necessarily technological. They have far more to do with the realities of how a company works.

"The products demo great," Selland points out, "but they demo great based on the fact that your data is together in one place, using a common structure. Most companies are so far from that, it's not funny."

In fact, he says, heterogeneous, scattered, inac-

cessible data — the likeliest situation at a large company with a long history — poses a problem that technology alone may not be able to solve.

Most companies that have a lot of legacy systems — in other words, most companies — like to fool themselves into believing they're going to be getting rid of those older systems soon, but the reality is they won't. Beware the inclination to make plans based on the belief that your company will retire legacy systems anytime in the near future.

Then there's the issue of how a company is organized. "A lot of companies are set up with independent profit centers that are running their own databases," Selland notes, "and they're really not incented to share. In fact, in a lot of cases they compete with each other."

As a result, BI implementations will face challenges not because there's anything wrong with the underlying theory or the technology, but because companies haven't set up the proper business incentives to support what they want to do with the technology.

Consider Company Structure

Ultimately, though, Selland points out that BI needs to serve the company's goals. While there's been an incessant drumbeat of late to focus on the customer, the choice to structure a company in that fashion is only one choice. Alternately, you could make the case for organizing the business around either its products or its operations. You likely can't be good at all three, Selland

TIPS

Consistency Is Critical

Once an objective is defined, check to make sure all departments are on the same page. Data must conform to an identical set of objectives, otherwise you'll wind up with the same old information you're getting now.

observes, and you probably shouldn't try. Whatever your choice, it will be reflected in how the company's data is structured.

One last point: "Don't get hung up on buzzwords or hype. 'Real-time responsiveness' and doing everything in a personalized manner are offshoots of having effective business intelligence infrastructures in place. The question, though, is what the organizational pain will be to get there," says Selland.

"You have to crawl before you can walk," he adds "and you have to start with the more boring tactical stuff, which includes business process mapping and business rationalization."

Says Selland: "It doesn't necessarily mean that you can't try to leap ahead. But you need to understand where you are now." ■

We work with
leading companies
on a
need-to-know basis.

The need-to-know? It's never been greater. Only Informatica offers an enterprise analytics suite that includes data integration, analysis and real-time delivery of vital information by Web, wireless and voice.

Enterprise analytics allows you to integrate data from multiple and disparate sources across the enterprise and use industry best-practice metrics to analyze it. Giving forward-looking companies the timely and vital information they need to thrive.

More than 1,400 customers worldwide, including 60 percent of the Fortune 100, rely on Informatica software to integrate, analyze and deliver critical information to help decision makers optimize their business performance.

For more information about Informatica and the value of business insight, request a free analytics kit, at www.informatica.com/info/kit or call 1-800-970-1179 today.

INFORMATICA
NOW YOU KNOW™

Attacking the Data Dilemma

It's critical that your data backbone has backbone.

In exploring the issues that confront companies seeking to benefit from the deployment of business intelligence tools, one theme above all others emerges. As Tom Nather, senior systems analyst for Penske Logistics in Cleveland, puts it, "the backbone to everything is data."

Nather advises that anyone contemplating an enterprisewide BI deployment concentrate efforts on the data and choose a BI approach that can work with the company's unique array of data sources and repositories.

BI tools will, in general, take one of two approaches to dealing with heterogeneous data sources. They either extract the data into a modern-design data warehouse that can be queried by reporting or analytic modules, or they skip the intermediate step and query the existing data sources directly using software algorithms. The two approaches also can be combined, and they can become stages in a data migration process, as well.

The Cost of Cleaning Data

If data concerns are the single most significant agenda item in deploying a BI effort, ensuring the quality and uniformity of that data is the challenge most often cited. "Data is never clean," notes Jeff Anderson, senior manager, e-business at Farmington, Conn.-based Otis Elevator, which deployed a BI system using software from Cognos to evaluate the ongoing effectiveness of its global Web presence.

"Cleaning up and aggregating data is always the most expensive part of a BI implementation," says Sanju Bansal, the COO of McLain, Va.-based Micro-Strategy. "These days, BI products are really easy to deploy once you have the data — most of our customers can get reports up and running in a week or so."

Sources agree that the most difficult early stage in the deployment process is finding and fixing discrepancies in data — a client's name spelled 10 different ways in different departmental systems, for example, or separate purchasing histories from different supplier offices or divisions. The remedy is a cleansing process that is part mechanical and part technical. It's a process, notes Bansal, that can take from several months to a year.

Recalling the deployment of his company's system, International Rectifier's Doug Burke, senior manager, financial analytics at the Los Angeles company, observes, "the hardest part was getting clean data." Of equal importance, key metrics must be defined using a single set of standards, he notes; *revenue* and *cost of sales*, for instance, must mean the same throughout the company or the generated numbers will be inconsistent.

Analysts concur about the data quality challenge. "In most databases," says Howard Dresner, a Gartner



Group analyst, "the quality of the data is terrible. And the longer it's been there, the more riddled with errors it will be." Adds Keith Gile, senior industry analyst with Giga Information Group, "if each of the sources' quality has been assessed, then pulling them together is likely to be less problematic."

According to International Data Corp., efforts to prepare data consume some 70 percent of the effort of any analytics undertaking. The import of this, notes Henry Morris, IDC's vice president for applications and information access, is worth paying attention to: "Even when you choose a packaged approach, you still have to wire it up to your data sources."

Measured in Years

An enterprise BI deployment project, from tool consideration through training, can easily be measured in years. Penske Logistics began its project in April 1998; by the end of that year it had 250 users up and running, and by the end of 1999, 750. Today, 1,500 people use the system.

At Westwood, Kan.-based Sprint, the project took between one and one-and-a-half years to complete. At Starwood Hotels and Resorts Worldwide of White Plains, N.Y., Senior Vice President of Customer and Direct Marketing Kevin Vaughan says his BI deployment took more than 18 months, but in retrospect he believes it could have been compressed into a nine to 12 month project.

Toyota Motor Sales, on the other hand, deployed its Cognos systems in a project that took only four-and-a-half months from start to finish.

The BI team at Fossil in Richardson, Texas, reports that its deployment went smoothly because the company hired for the project a full-time administrator — someone with relevant experience and skills who could ensure that no inconsistencies in data or reporting would creep into the final product.

Brio Software Inc.'s Craig Brennan, president and CEO of the Santa Clara, Calif., company, notes that different aspects of BI tools will appeal to the project team's IT and business-unit members. "If you're on the IT staff, your primary goal will be, 'How quickly can I aggregate data that resides in multiple disparate sources?' You need to be able to do that fast, and that can be hard on IT. From the business manager's point of view, interests will include elegance, ease of use and the ability to track metrics or performance in useful ways. So here, values involve the quality of the software and how the human-computer interaction occurs."

Execs on the Go

One of the enabling technologies making a modern day executive intelligence tool possible is the Internet. It allows executives on the go to access critical intelligence both when they need it and wherever they may be. And it simplifies deployment tremendously by eliminating the need for an installed client other than a browser.

"Web, Web, Web, Web," says Boston Properties Inc.'s Senior Vice President and CIO Jim Whalen about the future of his company's business intelligence system. "I've got to deal with 100 sites. I don't want to install software anymore."

"Delivering business information via a Web browser is a strategic choice," says Pete Cittadini, president and CEO of South San Francisco-based Actuate. Why? "Because a company's 'information consumers' don't need to be trained in how to access the data — it's as easy as pointing-and-clicking through

aging director and chief knowledge officer at KPMG Consulting, "companies would not have made historical investments in BI since there would be no cost-effective way to distribute this type of critical information to their employees or partners." In the future, he predicts, real-time access techniques — including PDAs and other handheld devices that allow salespeople and traveling executives to receive alerts about breaking competitor events, industry news or even new business opportunities — will become even more important in turning this intelligence into real business value. "Even something as straightforward as e-mail alerts that allow time-starved users to receive the information they need without the fatigue of Web browsing or searching have immense value."

Portals, which are customized, intranet-based desktop front ends to a variety of data sources, provide another opportunity to leverage a Web-based information flow, says Ben Barnes, CEO of Sagent in Mountain View, Calif. Why? Because they broaden the traditional BI view to allow the user to consult "unstructured" data — non-database documents such as Word files, for instance, or spreadsheets. "For example, imagine that IBM is thinking about changing its pricing on maintenance for a particular product," he says. "Before making a decision, they would likely turn to their BI system and ask all the typical BI questions: how many of these products are currently out there; how long have they been out there; what is the sales forecast for the next 12 months?"

CORPORATE SPOTLIGHT

OutlookSoft Corporation

Chairman: Tom Cowan

Year Founded: 1999

Number of Employees: 110

URL: www.outlooksoft.com

OutlookSoft Corporation is a leading provider of planning and performance management software that enables every person across the extended organization to plan, understand and leverage their performance — financial and beyond — from a single, unified business performance management application. OutlookSoft's Enterprise Analytic Portal™ (EAP™) solution allows companies to collaboratively perform real-time budgeting, consolidation, analysis, reporting, and performance management.

Learn how EAP can transform your business performance management process: call 203.964.3100 or e-mail info@outlooksoft.com.



Now You Know™

Beware the inclination to make plans based on the belief that your company will retire older legacy systems anytime in the near future. In reality, most of those systems will be around for a long time.

a Web site. What's more, because the information is delivered through a browser, the information consumers can access their data without any special business intelligence software on their computers. As a result, a company can serve large, geographically dispersed user bases while minimizing costs and time-to-market."

"Without the Web," says Edward J. Courtney, man-

Three Issues

Mark Macaluso's job as vice president, North American Services at Hyperion Solutions Corp. in Stamford, Conn., is to oversee installations of the company's BI products. He identifies three issues that can arise as deployments move forward:

Not enough clarity of purpose: A company has a set of objectives and the different departments may think they are all on the same page, but they're not. If that's the case, Macaluso says, you need to go back to the departments. If you ignore that, you'll wind up with the same old information you're getting now.

"Eating the elephant": Trying to bite off more than you can chew by trying to address everyone's needs at the same time. Usually, he says, this approach is doomed to failure. Instead, you need to group the undertaking into smaller projects. It's best to deliver quick, early successes that cement the strategy.

Executive sponsorship: Since the BI approach typically will cover a lot of different operational areas within the organization, you'll need a strong executive sponsor who can remove any roadblocks and improve communications between departments.

"One thing we find frequently is that companies have siloed applications too much," says Gaurav Dhillon, CEO of Redwood City, Calif.-based Informatica Corp. "The left hand does not know what the right hand is doing. Digitization has not erased that."

In many companies, a strategic deployment such as BI will stir up once again issues of the relationship between the IT organization and the company's business units. That's because, inevitably, as it is asked to deal increasingly with data and intelligence companywide, IT will be forced to assume more control. Its challenge, notes Giga's Gile, is to make sure business executives stay involved in the decision-making and deployment processes. "Politically," he adds, "this is very powerful for IT."

BI and Culture

One of the most subtle and insidious issues that can obstruct an enterprisewide BI deployment is the nature of the deploying company's culture. Do company values support and reward sharing data? Or is individual status and compensation tied to the amount of valuable information to which an employee has exclusive access?

It's one thing to put together an initiative that provides answers to a problem, notes Hyperion's CTO John Kopcke. Then the question becomes, do those answers culturally fit into an organization?

"Information is power," Kopcke observes. "Even

BI RESOURCES

Actuate Corp.

www.actuate.com

Autonomy Corp.

www.autonomy.com

Best Software Inc.

www.bestsoftware.com

Brio Software Inc.

www.brio.com

Cognos Inc.

www.cognos.com

Crystal Decisions

www.crystaldecisions.com

DCI's Enterprise

Analytics & Data

Warehousing

Conference & Exposition

www.dci.com/brochure/dwbos/

Informatica Corp.

www.informatica.com

KPMG Consulting

www.kpmg.com

OutlookSoft Corp.

www.outlooksoft.com

SAS Institute

www.sas.com

though it is in the organization's great benefit to share information, the more I share it, the less important I may become. So that cultural impact is probably a 'gotcha' that jumps out into, or soon after, the process."

IDC's Morris agrees that the real barriers to an effective BI deployment are cultural. "Is there a culture to share or to hoard data, both the raw data and what's done with it?" he asks.

Another consideration is how a company is organized. "A lot of companies are set up with independent profit centers that are running their own databases," notes CRM and BI consultant Chris Selland, "and they're really not incented to share. In fact, in a lot of cases they compete with each other."

As a result, a BI implementation will face challenges not because there's anything wrong with the underlying theory or the technology, but because the companies haven't set up the proper business incentives to support what they want to do with the technology.

Can a company reengineer its culture? It must, Selland maintains, or else it must scale expectations for the technology accordingly. "If you've set up your different profit centers to compete with each other, than you can't expect

that you will implement some technology that will magically let you analyze data across those units because they're not going to share."

The bottom line? "If you don't reengineer the company, then base your expectations for what you're going to get out of your information systems on that," says Selland. "You can put all the technology you want on top of that problem; it's not going to do you any good." ■

For more information on Special Advertising Section opportunities, please contact Stacy Sass McNulty at 212-512-6296 or stacy_sass-mcnulty@businessweek.com.

Triangle Publishing Services Co. Inc.

The Best Strategic Content for Web, Print, Multimedia and Beyond

This business intelligence special advertising section
was prepared for *BusinessWeek* by
Triangle Publishing Services Co. Inc.

The Best Strategic Content for Web, Print, Multimedia and Beyond
www.triangle-publishing.com ■ 617-244-0698

Triangle is a leading content provider of business and technology editorial for publishers and vendors. Triangle delivers print, Patent-Pending online and multimedia products, as well as a wide variety of publishing services.

Business Intelligence Section writer: Alan S. Kay

"We told KPMG Consulting: we need a web-based enrollment system so simple..."



*Mark Hammersmith
CIO Institutional Business, MetLife*

*Paul McDonnell
Managing Director, Financial Services, KPMG Consulting*

"...that our MetLife customers can more easily manage their financial future.

"The MetLife mission is to build financial freedom for our customers. KPMG Consulting worked with us to design and build an on-line system faster than we had thought possible. The new system gives our customers a single site for enrollment, product information, and performance.

"Our customers and our own employees are very happy with their 'new freedom.' Customer satisfaction scores are up, and so are employee productivity and our operating earnings."

"We're delighted that we surprised MetLife with how quickly we were able to help them design and build their new on-line system.

"But we're even happier that the system helped them become an even more successful company.

"After all, that's the reason we're in business."

YOU CAN HEAR THEIR STORY @ www.kpmgconsulting.com/results

BUSINESS SYSTEMS: STRATEGY IMPLEMENTATION RESULTS

KPMG Consulting



BETTER LUCK NEXT TIME?

Earnings slid in the first quarter, and revenues fell even more

The recession was mild, and the economy is showing definite signs of recovery. But that recovery hasn't hit the bottom line at Corporate America quite yet. With many industries still bedeviled by sluggish demand, overcapacity, and an inability to raise prices, the profit picture in the first quarter was bleak.

For the 900 companies in *Business-*

Week's Corporate Scoreboard, earnings fell 2% from a year earlier, hurt especially by weakness in the technology, telecom, oil, and airline sectors. That's the sixth straight quarter of falling profits. It's a vast improvement over the final quarter of 2001, when earnings tumbled 56%. However, sales also fell on a year-to-year basis, by 5%, after a 4% decline the previous quarter. That was

the worst drop in revenues for *Scoreboard* companies in 30 years and the second time that sales have declined in two consecutive quarters. How sum it up? "It was a lousy quarter," declares Sung Won Sohn, Wells Fargo Co.'s chief economist. "Economists think that demand has bottomed and is picking up. Many businesses are saying they haven't seen that yet."

Winners and Losers in Quarterly Profits

INDUSTRIES

COMPANIES

LEADERS		LAGGARDS		WHO MADE THE MOST		WHO LOST THE MOST	
PERCENTAGE CHANGE FROM 2001'S FIRST QUARTER		PERCENTAGE CHANGE FROM 2001'S FIRST QUARTER		MILLIONS OF DOLLARS		MILLIONS OF DOLLARS	
FOOD DISTRIBUTION	253%	AIRLINES	LOSS	CITIGROUP	\$4,890	TYCO INTERNATIONAL *	-\$1,905
CHEMICALS	213	TELECOM EQUIP. & SERVICES	LOSS	GENERAL ELECTRIC	3,518	MEDIMMUNE	-1,111
TEXTILES	177	ELECTRONICS	LOSS	MICROSOFT **	2,738	QWEST COMMUNICATIONS	-704
MISCELLANEOUS LEISURE	165	CONTAINERS	LOSS	PFIZER	2,373	LUCENT TECHNOLOGIES *	-683
POLLUTION CONTROL	161	STEEL	LOSS	PHILIP MORRIS	2,365	NEXTEL COMMUNICATIONS	-591
PRINTING & ADVERTISING	155	TIRE & RUBBER	LOSS	WAL-MART STORES ***	2,188	AMR	-575
BUILDING MATERIALS	126	INSTRUMENTS	LOSS	BANK OF AMERICA	2,179	UAL	-509
TRANSPORTATION SERVICES	108	CARS & TRUCKS	-89%	EXXON MOBIL	2,090	MOTOROLA	-477
HEALTH-CARE SERVICES	60	SEMICONDUCTORS	-77	AIG	1,980	DELTA AIR LINES	-397
APPLIANCES & FURNISHINGS	57	COAL, OIL & GAS	-74	JOHNSON & JOHNSON	1,834	AGILENT TECHNOLOGIES	-311
SAVINGS & LOAN	42	BROADCASTING	-67	SBC COMMUNICATIONS	1,710	US AIRWAYS GROUP	-283
EATING PLACES	36	SPECIAL MACHINERY	-59	MERCK	1,625	RITE AID ***	-268
RAILROADS	36	NONFERROUS METALS	-54	WELLS FARGO	1,379	GENUITY	-258
TOBACCO	32	TELEPHONE COMPANIES	-52	FANNIE MAE	1,320	CABLEVISION SYSTEMS	-250
BANKS - MIDWEST	32	CONGLOMERATES	-49	IBM	1,192	OFFICEMAX	-243

ALL-INDUSTRY AVERAGE: -2 * FISCAL SECOND QUARTER ** FISCAL THIRD QUARTER *** FISCAL FOURTH QUARTER
Data: Standard & Poor's COMPUSTAT



What strength there was came once again from companies that catered mainly to consumers. The top earner, Citigroup, posted a 37% profit gain, to \$4.89 billion, helped by its healthy spread between low interest costs on the money coming in from savers and the interest collected on consumer loans. And the largest company in the world, Wal-Mart Stores Inc., managed to dominate its sector. But like many businesses, it also faced some higher operating costs and fussy, price-conscious customers. CEO Lee Scott Jr. called Wal-Mart's 9% profit growth, to \$2.19 billion, "a good thing to a difficult year." The retailer failed to achieve its stated goal of boosting profits as fast as sales, which grew 14%.

Of course, the poor showing isn't entirely the result of adverse economic conditions. Investor concerns about the accuracy of corporate accounting have forced managers to be more transparent with their finances. The biggest loser this quarter, in fact, was Tyco International Ltd., which CEO L. Dennis Kozvski says was hurt by severe weakness in its electronics and telecom markets—as well as by substantial "dissection costs" resulting from the furor over Tyco's complex accounting. That includes an on-again, off-again breakup that was panned by Wall Street. Ultimately, the big conglomerate posted \$1.9 billion loss because of \$3.3 billion in pretax charges, which included a huge write-down of Tyco's undersea telecom network. The big loss broke a four-quarter string of earnings gains. Changes in accounting rules also distorted the profit picture for some companies. That's because they had until the end of the second quarter to write off goodwill costs—the premium they paid for acquisitions—all at once, rather than spreading those charges out over time. That hurt quarterly net income for many companies whose acquisitions have soured, such as AOL Time Warner

Inc. (Because charges for distressed assets are aftertax charges, they are not reflected in Scoreboard tables.) On the other hand, such companies as Intel Corp. took those charges last year, so profits showed a big bump-up in the first quarter—a 93% increase for the chipmaker, to \$936 million. Because many took the hit last year, Edward F. Keon, chief of quantitative research at Prudential Securities Inc., estimates that the new rule will boost reported net earnings for the Standard & Poor's 500 companies as much as 8% this year.

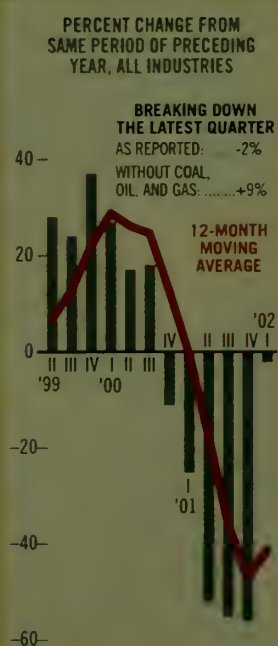
But put the special issues aside, and the fact is that business is still crawling along in many sectors. Take technology. With few companies willing to make big new investments in information systems,

even the strongest tech outfits suffered. Profits at IBM fell 32%, to \$1.19 billion. Every one of the company's lines—from business services and software to chips and financing—was off. CEO Samuel J. Palmisano, however, continues to invest in areas he believes will grow, such as software. "While no one can predict the timing of a recovery, we remain optimistic that business conditions will improve later this year," Palmisano says.

Until then, pricing power will be nonexistent in some industries. Energy prices, though rising, were still below last year's levels, putting a serious dent in the earnings of such former champs as Exxon Mobil Corp. The giant's profits for the quarter fell 58%, to \$2.09 billion. Altogether, the declines in Big Oil

A Spotlight on First-Quarter Profits

AFTERTAX PROFITS QUARTER BY QUARTER

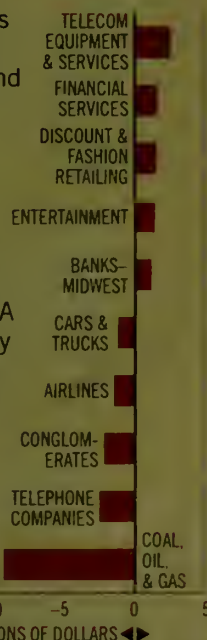


Data: Standard & Poor's COMPUSTAT

INDUSTRIES WITH THE BIGGEST DOLLAR CHANGE IN THE QUARTER

The bad news just keeps coming. First-quarter profits were down 2%, the sixth straight quarter that profits have declined. Adding to the pain, revenues declined by 5%, the second straight down quarter. There was some good news. The telecom-equipment group improved somewhat, though mostly because Lucent Technologies lost a lot less money than it did a year ago. And while brokerages did poorly overall, Citigroup and Sallie Mae (a.k.a. USA Education) helped boost profitability in the financial services sector. Oil companies were the single worst group, with Exxon Mobil and ChevronTexaco as the leading culprits; take the sector out, and first-quarter profits would have gone up 9%. If there's any solace, it's that overall results weren't as awful as the 56% drop last quarter.

CHANGE IN AFTERTAX PROFITS FROM 2001



Corporate Scoreboard

were so dramatic that if the group had been eliminated from the Scoreboard, overall profits would have risen 9% in the quarter instead of falling 2%. Even Big Pharma, which has long been in the winner's circle, had it tough. For the group, revenues rose only 6%, as opposed to the often double-digit yearly gains of the late '90s, as health insurers began clamping down on drug prices. Generic competition also wiped out sales of some previously top-selling drugs, like Merck & Co.'s Vasotec. Merck profits fell 2% in the quarter, to \$1.63 billion.

One hint of recovery: Manufacturing showed surprising strength. Strong sales, helped by heavy buyer incentives, helped General Motors Corp. show a respectable 9% sales increase. But those incentives were costly—profits fell 4%, to \$228 million. Nevertheless, GM says



that it still plans to make more autos this year than last. GM now predicts profits of \$2.9 billion this year, ahead of its original forecast.

Such optimism remains in short supply, though. That's why many executives are still pushing layoffs and other cost-cutting measures. By lopping 6% of its payroll in the past 12 months, 3M Co.

held profits steady at \$452 million, though sales dipped 7%. "The focus the organization is how to do work better, not just trying to hold your breath until the economy returns," says CH Financial Officer Patrick D. Campbell.

Having held their breath for months already with no sign of a pickup, some executives are turning blue in the face. But relief should be on the way. As companies worked restock inventories in the first quarter the economy grew at a 5.8% annual rate. Now, Wells Fargo's Sohn sees profit growth of 3% to 5% in the second quarter as businesses once again get ready to shop. If he's right, Corporate America may finally start prospering this so-called recovery.

*By Julie Forster in Chicago
with bureau report*

WHY MARGINS MAY BE READY TO MOVE HIGHER

What will get corporate profits out of their six-quarter slide? With rising energy costs, higher outlays for security, and a strong dollar weighing down corporate earnings, business executives are turning to their biggest expense, labor, as the primary way to rescue their ailing bottom lines.

That doesn't always mean layoffs, either. Businesses are boosting productivity not only with improved technology but by becoming more flexible in deploying their workers. The result? In the first quarter of 2002, output per hour worked surged at an annual rate of 8.6%, pushing unit labor costs down at a 5.4% pace. That drop followed a 3.1% decline in the fourth quarter, according to the Labor Dept. Without those back-to-back drops in unit costs—the largest in 20 years—the Scoreboard profit declines in the last quarter of 2001 and the first quarter of 2002 would likely have been even greater.

Federal Reserve Chairman Alan Greenspan recognized the importance of productivity in a speech to Congress in mid-April. He said then that "a lack of pressures in labor markets and increases in productivity are holding labor costs in check, resulting in rising profit margins even with inflation remaining low." In other words, as long as companies can cut the cost of what they make—through improved technology, lower labor

costs, or both—they will increase profits even if prices and sales volume hold steady. Joseph T. Abate, senior economist at Lehman Brothers Inc., believes that an increase in labor productivity alone could cause such a steep decline in costs that profits throughout the economy could increase by 20% in 2002, compared to an 18% drop in 2001.

How do companies rein in labor costs, especially without layoffs? Navistar International Corp. designed new work schedules to meet seasonal swings in its school-bus assembly plant in Tulsa, where orders are high before school starts but plummet by Christmas. Chairman and CEO John R. Horne says: "We designed

the operating process at the Tulsa plant so that the basic workweek is four 10-hour days. Then you can add any part of Friday and any number of Fridays depending on demand." In this way, says Horne, "you can follow the market very easily with a 25% capacity swing, [workers] still got their 40 hours of pay, and none of their friends got laid off." That flexibility helps the company find and deploy extra labor when it's needed.

Over at heavy-machinery maker Caterpillar Inc., temps will be hired to meet any increase in orders this year. Also, Caterpillar is now using overtime to fill orders. Investor Relations Director James W. Anderson says the advantage of temp workers and overtime is that if demand slumps, "those costs can be taken out pretty quickly."

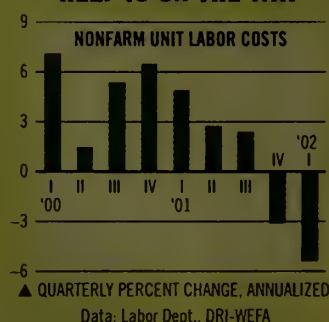
Of course, productivity gains rely on new technology, such as robotics or computers. So as capital spending rises, workers will get the equipment they need to work more efficiently.

Higher productivity also comes with a nice economic perk: It allows companies to hand out pay raises that outpace inflation.

In the first quarter, total wages and salaries rose 3.5% from a year ago, much better than the 1% increase in prices. And as workers spend that cash, it helps revive overall demand, which leads to new hiring. In April, nonfarm payrolls actually grew by a small 43,000. In the long run, slimming labor costs just may be the key to revving up profits again.

By Kathleen Madigan in New York, with Michael Arndt in Chicago

FOR PROFIT MARGINS, HELP IS ON THE WAY



CORPORATE SCOREBOARD

Glossary

SALES: Includes all sales and operating revenues. For banks, includes all operating revenues.

PROFITS: Net income before extraordinary items. For banks, profits are net income after minority gains or losses.

MARGINS: Net income from continuing operations before extraordinary items as percent of sales.

RETURN ON INVESTED CAPITAL:

Ratio of net income available for common stockholders (most recent 12 months) to latest available total funds invested in company, which consists of common equity, preferred stock, minority interest, and long-term debt.

RETURN ON COMMON EQUITY:

Ratio of net income available for common stockholders (most recent 12 months) to latest available common equity,

which includes common stock, capital surplus, and retained earnings.

PRICE-EARNINGS RATIO: Based on May 2, 2002, common-stock price and corporate earnings from continuing operations before extraordinary items for most recent 12-month period.

GROWTH IN COMMON EQUITY:

Average annual percentage growth in historical common equity for latest five-year period.

GROWTH IN EARNINGS PER SHARE:

Average annual percentage growth in historical basic earnings per share, including common-stock equivalents, for the latest five-year period.

MARKET VALUE: Latest available shares outstanding times stock price on May 2, 2002.

EARNINGS PER SHARE: For most recent 12-month period. For most companies, this figure represents diluted earnings per share.

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL.	12 MONTHS' EARNINGS PER SHARE
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE		
INDUSTRY COMPOSITE	1848555.7	-5	95604.0	-2	5.2	5.0	3.8	7.9	40	16	9	10455945	0.84
AEROSPACE & DEFENSE													
INDUSTRY COMPOSITE	39441.5	11	1952.5	-19	5.0	6.8	6.7	11.7	27	10	13	156865	2.12
BOEING BA	13821.0	4	578.0	-53	4.2	9.3	10.3	22.2	17	-2	19	35845	2.68
GENERAL DYNAMICS GD	3121.0	17	229.0	-5	7.3	9.0	17.7	20.6	22	23	19	19974	4.60
LOCKHEED GR	921.2	-9	49.6	-29	5.4	7.0	5.2	10.7	22	2	1	3261	1.45
LOCKHEED MARTIN LMT	5966.0	26	224.0	78	3.8	2.7	1.4	2.9	NM	4	-44	27487	0.38
ORTHROP GRUMMAN NOC	4086.0	106	149.0	45	3.6	5.2	3.5	5.7	27	24	8	13396	4.65
PRECISION CASTPARTS PCP (9)	631.3	0	48.9	24	7.7	6.3	2.4	4.8	46	22	17	1949	0.81
RAYTHEON RTN	3911.0	4	149.0	59	3.8	2.5	0.3	0.5	NM	14	-56	17300	0.11
ROCKWELL COLLINS COL (3)	608.0	-12	58.0	-5	9.5	8.8	10.8	10.8	NA	NA	NA	4785	NA
UNITED TECHNOLOGIES UTX	6376.0**	-4	467.0	6	7.3	6.6	13.7	22.4	18	18	17	32868	3.89
AUTOMOTIVE													
INDUSTRY COMPOSITE	120559.0	0	151.8	-84	0.1	0.8	-2.1	-14.6	NM	-6	-14	113566	-1.65
CARS & TRUCKS													
INDUSTRY COMPOSITE	89797.7	1	149.0	-89	0.2	1.5	-1.9	-18.8	NM	-14	-16	75578	-2.10
CHRYSLER F	39857.0	-6	-92.0	NM	NM	2.5	-3.8	-89.2	NM	NA	NA	29125	-3.63
GENERAL MOTORS GM	46264.0**	9	228.0	-4	0.5	0.6	0.4	2.9	36	3	-17	37031	1.82
HONDA HMC	293.6	39	9.7	86	3.3	2.5	11.7	13.2	29	37	34	833	1.01
MAZDA MZ	1466.0	-3	56.0	NM	NM	NM	-1.3	-4.1	NM	14	NA	2376	-0.74
NISSAN NTR	415.6	21	12.2	8	2.9	3.3	8.3	14.9	19	26	43	987	3.05
TOYOTA TMR	1501.5	-2	47.2	7	3.1	2.9	6.0	7.7	30	12	1	5226	2.28
PARTS & EQUIPMENT													
INDUSTRY COMPOSITE	26637.1	-3	39.8	NM	0.1	NM	-3.9	-8.6	NM	16	1	32395	-0.97
AMERICAN AXLE & MFG. HOLDINGS AXL	859.2	13	38.8	62	4.5	3.2	9.2	22.3	13	43	52	1541	2.60
WINN-DIXIE ARM (3)	1687.0	-6	35.0	67	2.1	1.2	3.4	10.7	35	49	21	2080	0.90
TRIVOLV ALV	1029.0	-5	39.0	88	3.8	1.9	2.2	3.5	34	24	-20	2285	0.68
ARGWARTNER BWA	633.9	4	31.5	49	5.0	3.5	4.2	9.1	22	14	4	1679	2.89
NA DCN	2574.0**	-7	-9.0	NM	NM	NM	5.7	-17.2	NM	9	NA	3060	-1.89
PHI DPH	6688.0	2	-51.0	NM	NM	NM	0.2	0.4	NM	NA	NA	9002	0.02
NA AUTOMOTIVE SYSTEMS DRRA	616.2	-7	11.2	22	1.8	1.4	0.9	3.0	34	46	-10	416	0.70
TON ETN	1723.0	-13	33.0	-34	1.9	2.5	3.3	6.1	40	4	-8	5990	2.15
GENERAL-MOGUL FDMQ	1346.1	-7	-25.6	NM	NM	NM	NM	NM	NM	24	NA	42	-13.07
AR LEA	3534.6	1	46.4	207	1.3	0.4	1.7	4.0	52	9	15	3352	1.00
INNECO AUTOMOTIVE TEN	809.0	-6	-2.0	NM	NM	NM	-7.4	NM	NM	-52	NA	248	-2.58
OVER AUTOMOTIVE TWR	668.1	6	-34.5	NM	NM	2.0	-20.7	-75.7	NM	17	NA	717	-6.55

First quarter ended Feb. 28. (2) First quarter ended Jan. 31. (3) Second quarter ended Mar. 31. (4) Second quarter ended Feb. 28. (5) Second quarter ended Jan. 31. (6) Third quarter ended Mar. 31. (7) Third quarter ended Feb. 28. (8) Third quarter ended Jan. 31. (9) Fourth quarter ended Mar. 31. (10) Fourth quarter ended Feb. 28. (11) Fourth quarter ended Jan. 31. *Sales include excise taxes. **Sales include other income. ***Sales include excise taxes and other income. *Revenues from some major subsidiaries are not included in consolidated sales; parent's share of earnings is included in profits. NA = not available. NM = not meaningful. Earnings per share are for latest 12 months, not necessarily for end of most recent fiscal year; they include all common-stock equivalents but exclude extraordinary items.

Data: Standard & Poor's COMPUSTAT

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL	M EAR \$
	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %		
VISTEON VC	4469.0	-5	-73.0	NM	NM	0.7	-5.3	-7.6	NM	NA	NA	1983	-1
(C) TIRE & RUBBER													
GROUP COMPOSITE	4124.2	-1	-37.1	NM	NM	NM	-2.2	-4.9	NM	-1	-22	5593	-0
COOPER TIRE & RUBBER CT8	813.0	7	26.1	616	3.2	0.5	2.2	4.4	45	4	-22	1848	0
GOODYEAR TIRE & RUBBER GT	3311.2	-3	-63.2	NM	NM	NM	-3.4	-8.0	NM	-2	NA	3745	-1
3 BANKS													
INDUSTRY COMPOSITE	75335.4	-15	12770.2	25	17.0	11.5	5.4	12.1	21	21	3	787306	1
(A) BANKS - EAST													
GROUP COMPOSITE	23343.5	-21	3230.1	21	13.8	9.1	4.9	9.3	27	18	2	218081	1
BANK OF NEW YORK 8K	1472.0**	-22	362.0	-6	24.6	20.3	11.4	20.8	21	5	10	26937	1
BANKNORTH GROUP 8KNG	367.6	-5	67.3	22	18.3	14.4	NA	15.0	15	34	8	4026	
FLEETBOSTON FINANCIAL F8F	4278.0	-21	735.0	418	17.2	2.6	5.7	8.7	26	25	-9	37754	
J.P. MORGAN CHASE JPM	10957.0**	-27	982.0	-20	9.0	8.1	1.7	3.6	52	19	-8	72145	
M&T BANK MT8	585.4	-11	120.6	44	20.6	12.7	5.9	14.1	21	29	13	8134	
MBNA KRB	2512.0	10	369.9	19	14.7	13.6	11.9	22.3	18	40	27	30272	
NORTH FORK BANCORPORATION NF8	314.5	3	98.3	25	31.3	25.7	20.9	24.5	18	24	21	6430	2
PNC FINANCIAL SERVICES GROUP PNC	1632.0	-14	317.0	20	19.4	14.0	2.9	7.1	38	2	-9	15834	
STATE STREET STT	1225.0	-18	178.0	47	14.5	8.1	13.5	17.8	25	17	17	16549	2
(B) BANKS - MIDWEST													
GROUP COMPOSITE	24522.5	-12	4676.2	32	19.1	12.7	5.3	13.5	22	24	1	294208	1
BANK ONE ONE	5492.0	-16	787.0	16	14.3	10.4	5.0	13.3	18	19	-1	48429	2
COMERICA CMA	909.0	-18	214.0	128	23.5	8.5	9.4	17.1	14	15	11	11290	
FIFTH THIRO BANCORP FIT8	1514.0	-9	390.2	27	25.8	18.3	13.2	15.5	34	29	16	40185	
HUNTINGTON BANCSHARES HBAN	519.7	-18	127.2	87	24.5	10.7	3.7	9.8	25	NA	-5	5225	
KEYCORP KEY	1535.0	-24	240.0	10	15.6	10.8	0.8	2.8	70	6	-19	12274	
MARSHALL & ILSLEY MI	639.3	-9	115.6	34	18.1	12.4	9.0	14.5	19	12	8	6643	
NATIONAL CITY NCC	2248.0	-4	446.1	33	19.8	14.3	5.5	19.5	13	11	7	19469	2
NORTHERN TRUST NTRS	706.7	-20	127.6	0	18.1	14.4	11.4	18.2	25	13	15	11922	
TCF FINANCIAL TC8	287.3**	-3	56.3	17	19.6	16.3	NA	23.4	19	7	16	4018	
U.S. BANCORP US8	3689.5	-17	793.2	93	21.5	9.3	4.6	13.1	22	84	12	45943	
WELLS FARGO WFC	6982.0	-4	1379.0	18	19.8	16.0	5.0	12.8	25	40	8	88810	
(C) BANKS - SOUTH & SOUTHEAST													
GROUP COMPOSITE	26374.8	-11	4669.5	22	17.7	12.9	5.7	13.0	18	22	4	262139	2
AMSOUTH BANCORPORATION ASO	754.8**	-14	145.6	15	19.3	14.3	6.1	18.6	15	21	2	8232	
BANK OF AMERICA BAC	11311.0	-19	2179.0	17	19.3	13.3	6.1	14.6	17	28	3	113600	
BB&T 88T	1456.4	-9	299.9	27	20.6	14.7	5.4	17.1	17	28	9	17794	
FIRST TENNESSEE NATIONAL FTN	582.9	-2	87.1	49	14.9	10.5	16.3	24.7	14	10	11	4851	
HIBERNIA HIB	331.0	-14	59.2	18	17.9	13.1	14.4	14.4	14	13	8	3227	
NATIONAL COMMERCE FINANCIAL NCF	375.4	-7	74.9	43	20.0	12.9	9.1	10.1	23	59	2	5785	
POPULAR 8POP	626.2	-6	89.0	21	14.2	11.0	4.9	14.3	13	12	10	4090	
REGIONS FINANCIAL RGBK	920.2	-4	154.1	26	16.7	12.9	6.3	13.4	15	20	4	8172	
SOUTHTRUST SOTR	835.7	-14	154.2	19	18.5	13.3	11.1	14.6	16	17	13	9340	
SUNTRUST BANKS STI	1912.9	-16	304.9	-10	15.9	14.9	6.9	16.0	15	12	11	19876	
SYNOVUS FINANCIAL SNV	549.1	-5	82.8	15	15.1	12.4	11.6	19.0	25	16	15	8089	
UNION PLANTERS UPC	663.3	-18	125.9	18	19.0	13.1	10.2	14.3	15	19	11	6853	
WACHOVIA W8	6056.0**	8	913.0	56	15.1	10.4	2.8	6.7	25	18	-30	52230	
(D) BANKS - WEST & SOUTHWEST													
GROUP COMPOSITE	1094.6	-16	194.4	8	17.8	13.7	10.6	13.4	17	-4	12	12878	3
UNIONBANCAL U8	633.8	-20	114.8	7	18.1	13.6	11.3	13.7	16	NA	14	7754	
ZIONS BANCORPORATION ZION	460.8	-11	79.6	11	17.3	13.9	9.6	12.9	17	36	10	5124	
4 CHEMICALS													
INDUSTRY COMPOSITE	27485.4	-8	1126.1	213	4.1	1.2	5.5	10.5	27	8	1	138771	1
AIR PRODUCTS & CHEMICALS APD (3)	1312.7	-14	126.1	33	9.6	6.2	9.9	16.5	21	4	-7	10947	
CABOT C8T (3)	350.0	-24	26.0	-7	7.4	6.1	8.9	13.0	16	7	-3	1760	
CROMPTON CK	644.8	-13	6.8	-57	1.0	2.1	-6.9	-24.2	NM	88	NA	1409	
CYTEC INDUSTRIES CYT	318.0	-15	7.0	-59	2.2	4.5	5.9	8.7	25	16	2	1308	
DOW CHEMICAL DOW	6262.0**	-15	38.0	NM	0.6	NM	1.7	3.4	86	5	NA	28946	
DUPONT DD	6142.0**	-10	479.0	-1	7.8	7.1	19.4	30.3	11	6	-2	45459	
EASTMAN CHEMICAL EMN	1236.0**	-8	24.0	-35	1.9	2.8	-5.5	-14.1	NM	2	NA	3477	
FERRO FOE	426.8	15	7.2	-48	1.7	3.8	2.7	12.8	33	-4	0	993	
FMC FMC	434.2	-3	9.0	-38	2.1	3.2	-24.1	NM	NM	-17	NA	1217	
FULLER (H.B.) FULL (1)	293.2	-4	0.7	-88	0.2	1.8	6.2	9.3	23	6	5	903	
GRACE (W.R.) GRA	413.5	4	12.4	-15	3.0	3.7	NA	NM	3	NA	-7	229	
GREAT LAKES CHEMICAL GLK	315.3	-14	3.6	-78	1.1	4.4	-25.9	-50.9	NM	-14	NA	1315	
IMC GLOBAL IGL	497.9	-4	4.8	-57	1.0	2.1	-1.2	-6.2	NM	-19	NA	1498	
INTL. FLAVORS & FRAGRANCES IFF	445.8	-8	41.9	107	9.4	4.2	9.4	26.3	23	-14	-9	3135	
LUBRIZOL LZ	467.5	3	29.8	61	6.4	4.1	8.8	13.6	18	-1	-6	1833	
LYONDELL CHEMICAL LYO	674.0	-21	-55.0	NM	NM	NM	-3.6	-25.4	NM	16	NA	1787	

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL.	12 MONTHS' EARNINGS PER SHARE
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %		
ENNUIUM CHEMICALS MCH	351.0	-21	-31.0	NM	NM	NM	-2.8	-6.7	NM	-10	NA	962	-0.93
SANTO MON	1221.0	-7	86.0	56	7.0	4.2	3.9	4.4	25	NA	NA	8082	1.24
GROUP OMG	1188.9	405	23.4	19	2.0	8.3	4.2	10.2	20	23	17	1916	3.33
ONE POL	613.2	-14	-3.6	NM	NM	NM	-2.4	-4.3	NM	34	NA	1172	-0.31
KAIR PX	1232.0	-8	127.0	1	10.3	9.4	8.0	16.9	23	5	5	9639	2.64
M & HAAS ROH	1381.0	-12	84.0	75	6.1	3.1	-0.5	-0.9	NM	24	NA	8531	-0.15
ITS SMG (3)	610.5**	-16	65.0	-23	10.6	11.6	0.0	0.0	NM	24	-12	1404	-0.01
ITIA SOI	654.0	-12	14.0	-36	2.1	2.9	-13.0	NM	NM	NA	NA	849	-0.65
CONGLOMERATES													
INDUSTRY COMPOSITE	55726.7	-1	2267.7	-49	4.1	7.9	6.9	16.1	23	19	18	411223	1.29
TER INTERNATIONAL AXE	614.7	-30	9.5	-55	1.5	2.4	2.8	3.8	49	5	13	1106	0.61
ERAL ELECTRIC GE	30466.0**	0	3518.0	17	11.5	9.9	10.5	26.7	22	12	15	313660	1.46
LYWELL INTERNATIONAL HON	5199.0	-13	376.0	817	7.2	0.7	1.7	2.6	NM	21	NA	30235	0.28
OFFICE SOLUTIONS IKN (3)	1220.2	-10	35.3	111	2.9	1.2	1.5	3.4	41	-3	-39	1858	0.32
LL (5)	285.4	-6	18.4	-38	6.5	9.8	9.4	13.3	26	0	2	2574	0.81
AMERICAS PAS	737.0	4	23.4	83	3.2	1.8	4.5	7.0	23	26	-3	2345	0.65
RON TXT	2418.0	-20	57.0	-50	2.4	3.7	1.4	2.8	64	6	-15	6986	0.77
TRW	4082.0	-2	89.0	62	2.2	1.3	1.4	4.5	72	5	-10	7059	0.78
INTERNATIONAL TYC (3)	9814.6	11	-1904.7	NM	NM	12.6	2.8	6.2	19	74	41	42137	1.12
VVI	444.4	-3	32.3	33	7.3	5.3	5.3	8.1	45	11	0	2668	0.67
TER INDUSTRIES WLT	445.4	-4	13.5	148	3.0	1.2	2.0	11.6	12	-2	4	595	1.13
CONSUMER PRODUCTS													
INDUSTRY COMPOSITE	87781.0	6	8372.9	20	9.5	8.4	15.9	27.9	27	6	7	806563	1.98
APPAREL													
UP COMPOSITE	7500.0	-1	342.1	-7	4.6	4.8	9.5	12.9	24	7	2	31318	1.76
N SHOE 8WS (11)	415.3	2	-23.1	NM	NM	1.2	0.3	0.4	NM	4	-33	360	0.05
S APPAREL GROUP JNY	1126.9	5	84.5	-12	7.5	8.9	7.8	11.1	24	43	22	5100	1.70
WOOD KWO (11)	470.0	-13	-3.1	NM	NM	NM	4.9	8.3	17	7	10	645	1.65
LAIBORNE LIZ	892.9	8	50.9	12	5.7	5.5	13.6	18.7	17	-1	11	3357	1.87
NKE (7)	2260.3	4	126.3	30	5.6	4.5	13.9	16.1	24	5	0	14829	2.29
LIPS-VAN HEUSEN PVH (11)	325.6	-13	-9.5	NM	NM	1.8	2.1	4.0	41	-2	96	432	0.38
OOK INTERNATIONAL R8K	736.0	-4	37.1	-10	5.0	5.4	8.8	12.9	17	11	-8	1609	1.56
TC	1273.1	-11	79.0	2	6.2	5.4	5.6	8.2	37	3	-11	4986	1.21
APPLIANCES & HOME FURNISHINGS													
UP COMPOSITE	20710.2	13	1050.7	57	5.1	3.6	9.9	13.8	33	5	21	64208	1.21
BATH & BEYONO 888Y (10)	879.1	18	82.7	29	9.4	8.6	20.1	22.1	50	39	31	10708	0.74
BUY 88Y (10)	6980.0	28	350.0	84	5.0	3.5	17.1	22.6	28	35	109	15450	2.65
UIT CITY GROUP CC (10)	3391.7	7	152.7	51	4.5	3.2	7.4	7.5	24	NA	9	4690	0.92
UTURE BRANOS INTERNATIONAL F8N	634.5	25	32.8	67	5.2	3.9	5.8	8.8	32	15	10	2300	1.32
MAN INTERNATIONAL INOS. HAR (6)	458.3	5	14.6	NM	3.2	NM	5.5	11.0	40	0	-7	1933	1.51
ALL INTERNATIONAL K8AL8 (6)	290.1	-9	15.8	128	5.4	2.2	3.0	3.1	46	3	-13	642	0.37
BOY LZ8 (6)	545.0	-1	21.7	34	4.0	2.9	5.5	6.6	39	17	14	1826	0.77
ETT & PLATT LEG	1022.7	-3	56.2	22	5.5	4.4	6.9	10.4	27	15	4	5304	0.99
NS 'N THINGS LIN	456.9	20	5.1	10	1.1	1.2	6.0	6.0	48	16	19	1416	0.73
AG MYG	1177.6	20	58.1	-26	4.9	8.0	15.5	163.4	25	-53	11	3643	1.89
1 IMPORTS PIR (10)	478.6**	11	49.0	34	10.2	8.5	16.4	17.1	22	16	42	2153	1.04
OSHACK RSH	1034.4	-9	57.6	24	5.6	4.1	13.1	24.1	34	-9	23	5610	0.93
LPPOOL WHR	2574.0	2	84.0	155	3.3	1.3	3.2	5.6	63	-5	-15	5206	1.22
AMS-SONOMA WSM (11)	787.4	17	70.4	58	8.9	6.6	13.6	14.3	44	32	70	3327	1.32
BEVERAGES													
UP COMPOSITE	19930.6	8	2088.5	13	10.5	10.0	16.2	29.0	35	9	4	312404	1.51
USER-BUSCH 8UO	3136.6	3	456.1	16	14.5	13.0	17.6	43.5	27	0	12	47375	1.97
YN-FORMAN 8F 8 (8)	503.9	2	57.3	2	11.4	11.3	17.8	18.3	24	14	8	5468	3.37
COLA KO	4079.0	3	801.0	-8	19.6	22.1	31.0	34.4	37	12	-5	143306	1.57
COLA BOTTLING CONSOLIDATED COKE	283.2	27	3.4	NM	1.2	NM	2.3	75.1	30	8	-17	440	1.65
COLA ENTERPRISES CCE	3642.0	9	10.0	NM	0.3	NM	0.7	3.1	NM	15	NA	9205	-0.21
TELLATION BRANOS STZ (10)	673.5	24	28.6	55	4.2	3.4	6.1	15.2	20	12	26	2679	3.14
IS (AOLPH) RKY	739.3	36	27.2	48	3.7	3.4	13.6	13.9	19	7	21	2472	3.57
OTTLING GROUP P8G	1772.0	8	54.0	108	3.0	1.6	6.3	20.4	26	NA	0	8268	1.14
ICO PEP	5101.0	9	651.0	14	12.8	12.1	23.8	29.7	35	4	16	93191	1.51
PERSONAL CARE													
UP COMPOSITE	21790.0	4	2255.8	9	10.4	9.8	16.7	31.8	34	0	5	264508	1.77
PRODUCTS AVP	1383.6	2	96.2	17	7.0	6.0	37.3	NM	31	NA	11	13389	1.85
OX CLX (6)	1033.0**	7	46.0	-42	4.5	8.2	10.8	15.0	43	17	6	10801	1.09
ATE-PALMOLIVE CL	2195.2	-1	289.7	8	13.2	12.1	29.7	372.4	28	-15	14	29977	1.94
OL	307.5	5	23.6	61	7.7	5.0	15.2	213.7	25	-8	14	1983	0.85
AB ECL	786.1	38	37.0	-17	4.7	7.8	12.8	20.5	32	11	12	5773	1.39
E LAUOER EL (6)	1121.7	2	50.7	-22	4.5	5.9	10.5	15.9	38	28	21	8747	0.98

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL
	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %	
GILLETTE G	1732.0	7	223.0	23	12.9	11.2	24.6	44.5	41	-18	-3	38544
KIMBERLY-CLARK KMB	3330.9	0	450.6	4	13.5	13.0	18.2	28.8	22	7	11	34442
PROCTER & GAMBLE PG (6)	9900.0	4	1039.0	16	10.5	9.4	13.1	23.5	42	0	1	120852
(E) TOBACCO												
GROUP COMPOSITE	17850.2	3	2635.8	32	14.8	11.5	18.8	35.9	13	8	10	134125
PHILIP MORRIS MO	15960.0	3	2365.0	32	14.8	11.5	21.3	46.6	13	5	11	120519
R.J. REYNOLDS TOBACCO HOLDINGS RJR	1515.0	4	167.0	67	11.0	6.9	5.3	6.4	13	-8	NA	6724
UST UST	375.2	0	103.8	-4	27.7	28.7	33.8	83.9	14	4	4	6882
7 CONTAINERS & PACKAGING												
INDUSTRY COMPOSITE	11841.0	-3	-52.4	NM	NM	1.6	-0.3	-0.8	NM	10	0	31594
(A) GLASS, METAL & PLASTIC												
GROUP COMPOSITE	4178.1	-2	-253.8	NM	NM	0.5	-6.2	-32.0	NM	-6	7	7377
BALL BLL	875.9	3	27.5	49	3.1	2.2	-6.1	-18.6	NM	-1	NA	2804
CROWN CORK & SEAL CCK	1567.0	-5	-54.0	NM	NM	NM	-17.9	NM	NM	-20	NA	1457
OWENS-ILLINOIS OI	1310.9	0	-238.6	NM	NM	3.7	0.7	3.0	45	14	7	2366
SILGAN HOLDINGS SLGN	424.3	-4	11.3	414	2.7	0.5	5.6	170.0	15	NA	3	750
(B) PAPER												
GROUP COMPOSITE	7662.9	-4	201.4	12	2.6	2.3	3.1	7.3	29	19	5	24217
BEMIS BMS	552.7	-4	34.9	18	6.3	5.1	9.9	16.0	20	9	7	2854
GRAPHIC PACKAGING INTERNATIONAL GPK	263.7	-9	4.9	34	1.9	1.3	-0.2	-0.5	NM	0	NA	292
GREIF BROS. GBCOA (2)	365.2	67	3.8	-90	1.0	17.6	4.4	9.2	15	9	28	787
MAIL-WELL MWL	391.7	-10	-8.3	NM	NM	0.9	-2.9	-11.7	NM	21	NA	316
PACKAGING CORP. OF AMERICA PKG	414.7	-9	9.6	-66	2.3	6.2	5.7	11.6	24	NA	24	2101
PACTIV PTV	647.0	-5	42.0	45	6.5	4.3	6.1	10.9	19	NA	NA	3300
POTLATCH PCH	321.5	2	-15.2	NM	NM	NM	-4.1	-11.8	NM	-5	NA	997
ROCK-TENN RKT (3)	348.1	-5	11.6	58	3.3	2.0	5.2	10.2	14	3	-1	606
SEALED AIR SEE	746.1	-2	60.5	75	8.1	4.6	4.4	15.4	29	37	10	3688
SMURFIT-STONE CONTAINER SSCC	1930.0	-12	9.0	-53	0.5	0.9	0.9	2.6	64	16	28	3932
SONOCO PRODUCTS SON	654.2	3	33.5	620	5.1	0.7	7.1	14.7	23	0	-8	2713
TEMPLE-INLAND TIN	1028.0	-2	15.0	25	1.5	1.1	2.7	6.0	23	-2	16	2631
8 DISCOUNT & FASHION RETAILING												
INDUSTRY COMPOSITE	197431.2	7	7497.2	26	3.8	3.2	8.5	13.7	35	12	13	675413
ABERCROMBIE & FITCH ANF (11)	466.6	6	79.2	3	17.0	17.6	28.3	28.3	19	112	46	3057
ALBERTO-CULVER ACV (3)	657.8	11	32.7	26	5.0	4.4	11.2	15.9	27	11	11	3257
AMAZON.COM AMZN	847.4	21	-24.0	NM	NM	NM	-50.7	NM	NM	NA	NA	6122
AMERICAN EAGLE OUTFITTERS AEOS (11)	464.3	10	43.9	-11	9.5	11.6	20.2	21.0	17	48	88	1775
ANN TAYLOR STORES ANN (11)	371.4**	8	-0.3	NM	NM	1.1	4.0	4.8	44	12	32	1295
AUTOZONE AZO (4)	1081.3	11	63.8	101	5.9	3.3	11.1	26.7	36	-1	9	8035
BARNES & NOBLE BKS (11)	1815.1	13	84.0	NM	4.6	NM	4.8	7.2	33	17	NA	2083
BIG LOTS BLI (11)	1138.2	2	-1.9	NM	NM	6.1	-2.5	-3.1	NM	4	NA	1783
BJ'S WHOLESALE CLUB BJ (11)	1543.1	2	56.4	3	3.7	3.6	12.0	12.0	40	18	10	3147
BORERS GROUP BGP (11)	1204.5	1	109.3	94	9.1	4.7	10.2	10.4	22	14	7	1889
BURLINGTON COAT FACTORY BCF (7)	779.8	8	37.3	3	4.8	5.0	8.3	8.4	17	12	36	1018
COW COMPUTER CENTERS CDWC	1002.8	2	40.8	1	4.1	4.1	19.4	19.4	28	42	40	4546
CHARMING SHOPPES CHRS (11)	647.1	49	-27.8	NM	NM	2.1	-0.6	-0.8	NM	2	NA	971
CLAIRE'S STORES CLE (11)	280.4	-5	29.8	-2	10.6	10.3	8.0	10.1	26	16	0	1064
COLE NATIONAL CNJ (11)	296.2	-1	5.3	43	1.8	1.3	1.2	3.3	58	36	-39	295
COSTCO WHOLESALE COST (4)	9382.9**	13	192.6	9	2.1	2.1	10.0	11.8	31	22	18	18440
CSK AUTO CAO (11)	334.0	-5	1.6	NM	0.5	NM	-1.8	-11.3	NM	NA	10	420
OOLLAR'S DDS (11)	2534.0**	-5	101.0	71	4.0	2.2	1.2	2.5	32	1	-18	2108
OOLLAR GENERAL DG (11)	1586.0	10	97.4	NM	6.1	NM	15.0	19.9	26	16	1	5292
OOLLAR TREE STORES DLTR	489.6	26	22.6	109	4.6	2.8	19.7	19.5	32	46	26	4290
ELECTRONICS BOUTIQUE HLOGS. ELBO (11)	490.5	47	17.7	36	3.6	3.9	8.6	8.6	42	67	4	776
FAMILY OOLLAR STORES FDO (4)	1105.2	7	63.8	5	5.8	5.8	18.9	18.9	30	17	27	6053
FEDERATED DEPARTMENT STORES FD (11)	5132.0**	-8	310.0	-23	6.0	7.1	5.5	9.3	16	4	13	8231
FINLAY ENTERPRISES FNLY (11)	388.1	-8	24.6	-15	6.3	6.9	5.3	12.4	7	62	11	135
FOOT LOCKER Z (11)	1155.0	-8	42.0	0	3.6	3.3	8.2	11.2	19	-5	-8	2097
FOOTSTAR FTS	553.8	7	-6.1	NM	NM	NM	-4.5	-8.4	NM	-5	NA	577
FRED'S FRED (11)	274.0	12	8.2	37	3.0	2.5	8.9	9.0	50	7	33	1013
GAP GPS (11)	4089.6	-11	-34.2	NM	NM	5.9	-0.2	-0.3	NM	16	NA	12951
GART SPORTS GRTS (11)	316.0	36	7.7	-34	2.4	5.0	2.8	6.1	43	23	47	363
GOODY'S FAMILY CLOTHING GDYS (11)	363.1	-9	-7.7	NM	NM	2.8	-9.1	-10.0	NM	11	NA	286
HOME DEPOT HD (11)	13488.0	29	710.0	53	5.3	4.4	15.7	16.8	36	26	26	109788
INSIGHT ENTERPRISES NSIT	528.0	-5	12.1	-16	2.3	2.6	8.4	9.3	36	48	40	1135
JO-ANN STORES JAS.A (11)	498.2	0	18.9	NM	3.8	NM	-3.1	-6.1	NM	8	NA	365
KOHL'S KSS (11)	2724.2	23	233.8	31	8.6	8.0	12.8	17.8	50	38	34	24298
LANOS' ENO LE (11)	596.0	11	45.9	44	7.7	5.9	16.7	16.7	23	12	2	1560
LIMITEO LTD (11)	3137.6	-11	326.6	37	10.4	6.8	16.4	18.9	17	6	11	8511

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL	12 MONTHS EARNINGS PER SHARE
	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %		
LOWE'S LOW ⁽¹¹⁾	5253.5	16	218.4	55	4.2	3.1	9.8	15.3	33	26	26	33736	1.30
MAY DEPARTMENT STORES MAY ⁽¹¹⁾	4647.0**	-7	431.0	-17	9.3	10.4	8.3	17.9	16	1	5	10152	2.22
MEN'S WEARHOUSE MW ⁽¹¹⁾	385.7	-14	16.3	-57	4.2	8.6	7.9	8.5	24	31	29	1051	1.04
MICHAELS STORES MIK ⁽¹¹⁾	908.0	11	63.6	27	7.0	6.1	9.2	11.4	29	19	27	2732	1.41
NEIMAN MARCUS GROUP NMGA ⁽⁵⁾	908.1**	-2	24.3	-39	2.7	4.3	5.2	6.5	28	49	16	1847	1.36
NORDSTROM JWN ⁽¹¹⁾	1660.1**	-1	50.7	88	3.1	1.6	5.4	9.5	25	-4	-3	3153	0.93
OFFICE DEPOT ODP	3040.6	1	102.7	82	3.4	1.9	10.8	12.5	25	8	-9	5988	0.79
OFFICEMAX OMX ⁽¹¹⁾	1274.4	-10	-243.1	NM	NM	NM	-42.8	-44.1	NM	-7	NA	810	-2.72
REILLY AUTOMOTIVE ORLY	295.5	24	16.6	35	5.6	5.2	9.5	12.3	25	32	23	1769	1.33
PAYLESS SHOESOURCE PSS ⁽¹¹⁾	642.3	-8	-34.0	NM	NM	2.0	6.3	9.7	29	-14	0	1287	2.01
PENNEY (J.C.) JCP ⁽¹¹⁾	9542.0	0	95.0	NM	1.0	NM	0.8	1.5	68	3	-33	5784	0.32
PEP BOYS-MANNY, MOE & JACK PBY ⁽¹¹⁾	508.2	-7	3.7	186	0.7	0.2	3.2	5.9	27	-3	NA	966	0.69
PETSMART PETM ⁽¹¹⁾	737.8	21	29.7	NM	4.0	NM	5.9	11.9	47	-3	NA	1804	0.34
ROSS STORES ROST ⁽¹¹⁾	848.4	9	50.0	10	5.9	5.8	28.5	28.5	21	11	18	3204	1.91
SAKS SKS ⁽¹¹⁾	1912.0	-10	54.0	-2	2.8	2.6	-0.4	-0.7	NM	52	1	2126	0.00
SEARS, ROEBUCK S	9037.0	2	318.0	81	3.5	2.0	3.7	15.1	20	5	-2	16956	2.70
SHERWIN-WILLIAMS SHW	1149.2	-1	34.8	-6	3.0	3.2	13.1	17.5	18	0	-18	4753	1.68
SHOPKO STORES SKO ⁽¹¹⁾	1006.6	-12	34.9	NM	3.5	NM	2.4	4.1	22	11	-4	628	0.98
SPORTS AUTHORITY TSA ⁽¹¹⁾	401.7	-3	15.6	21	3.9	3.1	3.7	7.9	35	-18	-21	421	0.37
STAGE STORES 3STGS ⁽¹¹⁾	268.7	-7	15.8	NM	5.9	NM	-3.4	-3.4	NA	NA	NA	663	NA
STAPLES SPLS ⁽¹¹⁾	2929.2	-6	93.8	NM	3.2	NM	11.0	12.9	35	22	3	9363	0.57
TALBOTS TLB ⁽¹¹⁾	433.2**	-8	32.5	-2	7.5	7.0	19.0	22.4	18	7	47	2141	2.00
TARGET TGT ⁽¹¹⁾	13237.0**	7	663.0	20	5.0	4.5	8.6	17.5	29	17	22	39936	1.51
TIFFANY TIF ⁽¹¹⁾	565.8**	-2	82.7	-2	14.6	14.7	14.3	16.7	35	24	27	5793	1.15
TOYS 'R' US TOY ⁽¹¹⁾	3208.7	17	155.3	15	4.8	4.9	26.5	40.3	23	5	27	11969	1.94
TOYS 'R' US TOY ⁽¹¹⁾	4759.0	-1	158.0	-37	3.3	5.2	1.3	2.0	51	-2	16	3295	0.33
VALUE CITY DEPARTMENT STORES VCD ⁽¹¹⁾	639.8	-4	-8.7	NM	NM	NM	-5.2	-12.5	NM	4	NA	136	-0.85
WAL-MART STORES WMT ⁽¹¹⁾	64210.0	14	2188.0	9	3.4	3.5	12.1	19.0	38	17	19	252262	1.49
WILSONS THE LEATHER EXPERTS WLSN ⁽¹¹⁾	367.4	-4	22.7	-63	6.2	16.0	-7.4	-9.6	NM	47	NA	270	-1.02
WAL-ZLC ⁽⁵⁾	892.6	4	95.0	33	10.6	8.3	9.1	10.0	14	12	18	1392	2.79
ELECTRICAL & ELECTRONICS													
INDUSTRY COMPOSITE	45442.5	-17	201.8	-89	0.4	3.4	-5.9	-7.7	NM	16	-2	516397	-0.56
A) ELECTRICAL PRODUCTS													
GROUP COMPOSITE	7989.7	-5	508.4	-13	6.4	6.9	7.0	11.5	27	-2	1	40993	1.66
ACQUIITY BRANDS AYI ⁽⁴⁾	468.2	-1	10.6	-19	2.3	2.8	4.2	9.5	NA	NA	NA	763	NA
AMETEK AME	263.6	0	19.7	8	7.5	6.9	10.6	20.1	19	21	7	1277	2.03
COOPER INDUSTRIES CBE	975.0	-11	48.8	-13	5.0	5.2	8.1	12.5	17	-1	1	4235	2.68
EMERSON ELECTRIC EMR ⁽³⁾	3520.8	-14	274.7	-23	7.8	8.7	9.3	13.5	27	4	4	22537	2.00
HUBBELL HUBB	301.7	-12	19.5	-8	6.5	6.1	5.5	6.3	43	-1	-12	1973	0.79
ROCKWELL AUTOMATION ROK ⁽³⁾	958.0	-18	58.0	-18	6.1	6.1	3.0	4.7	58	-18	-15	4039	0.38
SMITH (A.O.) AOS	371.9	17	12.1	42	3.3	2.7	2.1	3.9	42	2	-1	753	0.76
SPX SPW	1130.5	66	65.1	84	5.8	5.2	5.0	12.1	27	13	7	5416	4.96
B) ELECTRONICS													
GROUP COMPOSITE	11216.4	-14	-572.7	NM	NM	NM	-11.0	-15.6	NM	9	-16	85331	-1.09
AVAYA AV ⁽³⁾	1279.0	-31	-63.0	NM	NM	NM	-28.3	-53.9	NM	NA	NA	2163	-1.86
HARRIS HRS ⁽⁶⁾	483.3	1	22.5	103	4.7	2.3	5.9	7.6	28	-4	-38	2394	1.29
HUGHES ELECTRONICS GMH	2038.2	8	-156.4	NM	NM	NM	-5.6	-7.1	NM	3	NA	19175	-0.59
3 COMMUNICATIONS HOLDINGS LLL	696.8	51	29.3	106	4.2	3.1	5.0	10.3	41	75	48	5118	3.19
MOTOROLA MOT	6023.0	-22	-449.0	NM	NM	NM	-18.4	-29.6	NM	6	NA	34599	-1.74
QUALCOMM QCOM ⁽³⁾	696.1	-3	43.9	-60	6.3	15.3	-2.6	-2.7	NM	53	NA	21882	-0.19
C) INSTRUMENTS													
GROUP COMPOSITE	4702.5	-24	-25.2	NM	NM	8.8	1.0	1.4	NM	30	14	48539	0.12
AGILENT TECHNOLOGIES A ⁽²⁾	1426.0	-44	-317.0	NM	NM	6.8	-13.7	-16.6	NM	NA	NA	13502	-1.94
APOGENT TECHNOLOGIES AOT ⁽³⁾	263.1	7	32.6	8	12.4	12.3	7.5	13.9	21	25	10	2492	1.11
APPLIED BIOSYSTEMS GROUP ABI ⁽⁶⁾	409.0	-7	49.1	-15	12.0	13.1	15.8	15.8	20	NA	52	3520	0.82
BECKMAN COULTER BEC	446.7	3	28.0	20	6.3	5.4	11.4	26.6	21	19	19	2951	2.28
DANAHER DHR	1004.2	0	82.7	0	8.2	8.2	8.0	11.4	36	24	16	10855	2.00
KLATENCOR KLAC ⁽⁶⁾	357.1	-42	34.1	-75	9.6	22.1	15.8	15.8	36	24	12	10328	1.53
PERKINELMER PKI	305.1	-9	0.8	-96	0.3	6.5	-1.2	-1.7	NM	30	NA	1551	-0.21
THERMO ELECTRON TMO	491.3	-14	64.4	195	13.1	3.8	3.5	4.8	39	3	-31	3340	0.49
D) SEMICONDUCTORS & OTHER COMPONENTS													
GROUP COMPOSITE	21533.9	-19	291.2	-77	1.4	4.8	-7.7	-9.2	NM	22	-5	341534	-0.59
ADVANCED MICRO DEVICES AMD	902.1	-24	-9.2	NM	NM	10.5	-4.2	-5.5	NM	13	NA	3790	-0.57
AGERE SYSTEMS AGR A ⁽³⁾	551.0	-54	-219.0	NM	NM	NM	NM	NM	NM	NA	NA	6837	-3.24
ANALOG DEVICES ADI ⁽²⁾	393.0	-49	24.7	-87	6.3	24.7	4.7	6.6	74	28	23	13195	0.49
ATMEL ATML	275.8	-48	-44.3	NM	NM	10.7	-24.6	-34.9	NM	18	NA	3920	-1.11
AVX AVX ⁽⁹⁾	275.1	-54	-2.1	NM	NM	20.8	-0.5	-0.5	NM	16	21	3462	-0.04
BENCHMARK ELECTRONICS BHE	329.2	-24	5.3	5	1.6	1.2	-11.3	-15.1	NM	35	NA	558	-2.77

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL	12 MONTHS EARNING PER SHARE
	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %			
FAIRCHILD SEMICNDUCTOR INTL. FCS	336.9	-13	2.7	69	0.8	0.4	-2.1	-5.0	NM	128	NA	3147	-0.40	
INTEL INTC	6781.0	2	936.0	93	13.8	7.3	4.7	4.9	NM	19	-14	186450	0.26	
JABIL CIRCUIT JBL (4)	822.1	-32	3.7	-91	0.5	3.4	2.3	2.9	92	71	32	3797	0.21	
LSI LOGIC LSI	412.5	-20	-171.8	NM	NM	NM	-29.6	-48.7	NM	15	NA	4606	-3.15	
MICRON TECHNOLOGY MU (4)	645.9	-39	-30.4	NM	NM	NM	-16.1	-17.0	NM	26	NA	14042	1.95	
MOLEX MOLX (6)	408.3	-32	19.7	-68	4.8	10.1	3.4	3.4	NM	10	8	6507	0.30	
NATIONAL SEMICNDUCTOR NSM (7)	369.5	-22	-37.8	NM	NM	8.2	-10.4	-10.5	NM	-1	30	5509	-1.02	
NVIDIA NVDA (11)	499.9	129	73.0	135	14.6	14.2	16.6	23.2	33	341	157	4917	1.04	
ON SEMICNDUCTOR ONNN	269.1	-25	-50.0	NM	NM	NM	-80.8	NM	NM	NA	NA	723	-4.25	
SANMINA-SCI SANM (3)	2411.2	102	-39.3	NM	NM	5.2	-2.7	-3.7	NM	87	1	5041	-0.59	
SOLECTRON SLR (4)	2974.6	-45	-157.1	NM	NM	2.3	-5.3	-8.5	NM	54	NA	6147	-0.95	
TEXAS INSTRUMENTS TXN	1827.0	-28	-38.0	NM	NM	9.1	-3.6	-4.0	NM	25	NA	51668	-0.27	
THOMAS & BETTS TNB	342.1	-14	-11.6	NM	NM	NM	-11.8	-21.7	NM	-4	NA	1395	-2.50	
VISHAY INTERTECHNOLOGY VSH	434.1	-22	2.4	-97	0.6	16.1	-2.9	-3.7	NM	21	-34	3657	-0.59	
XILINX XLNX (9)	273.5	-33	34.3	NM	12.5	NM	-6.0	-6.0	NM	43	0	12166	-0.34	

10 FOOD

INDUSTRY COMPOSITE	109480.4	7	3915.6	28	3.6	3.0	8.0	16.1	23	17	7	319149	1.32
--------------------	----------	---	--------	----	-----	-----	-----	------	----	----	---	--------	------

(A) FOOD DISTRIBUTION

GROUP COMPOSITE	13243.8	-1	213.0	253	1.6	0.5	10.0	17.5	28	10	11	26041	1.06
INTERNATIONAL MULTIFOODS IMC (10)	768.9	13	4.9	81	0.6	0.4	1.2	3.6	57	-4	14	540	0.50
NASH FINCH NAFC	920.8**	2	5.9	80	0.6	0.4	4.1	11.3	15	-3	-2	357	1.97
PERFORMANCE FOOD GROUP PFGC	996.9	38	10.8	107	1.1	0.7	5.1	7.2	33	41	18	1651	1.13
SUPERVALU SVU (10)	4651.4	-15	34.9	NM	0.8	NM	5.4	10.7	20	10	-6	3967	1.53
SYSCO SY (6)	5620.3	5	151.4	9	2.7	2.6	19.6	29.0	30	8	18	19083	0.97
UNITED NATURAL FOODS UNFI (5)	285.5	17	5.2	100	1.8	1.1	9.7	10.2	29	41	9	443	0.80

(B) FOOD PROCESSING

GROUP COMPOSITE	51929.4	17	2523.8	26	4.9	4.5	8.2	16.1	24	15	7	228109	1.33
ARCHER DANIELS MIDLAND ADM (6)	5326.4	4	117.2	26	2.2	1.8	4.6	7.0	20	0	-10	9099	0.70
BUNGE BG	2684.0	9	36.0	NM	1.3	NM	6.1	11.9	10	NA	NA	1809	2.12
CAMPBELL SOUP CPB (5)	1810.0	3	203.0	-25	11.2	15.4	23.3	NM	21	NA	1	11497	1.34
CDNAGRA FOODS CAG (7)	6244.7	-2	170.8	47	2.7	1.8	7.0	17.1	18	10	12	13131	1.34
CORDON PRODUCTS INTERNATIONAL CPO	431.9	-5	11.2	-12	2.6	2.8	4.2	6.5	22	-4	20	1199	1.55
DOLE FOOD DOL	1059.4	3	56.3	91	5.3	2.9	-0.6	-1.4	NM	2	NA	1889	-0.20
DREYER'S GRAND ICE CREAM DRYR	290.4	21	1.3	NM	0.5	NM	3.6	6.9	NM	10	39	1646	0.41
FRESH DEL MONTÉ PRODUCE FDP	537.4	1	67.1	63	12.5	7.7	14.5	19.7	11	49	7	1314	2.23
GENERAL MILLS GIS (7)	3104.5	82	82.5	-48	2.7	9.3	6.0	15.5	26	-33	11	16687	1.73
HEINZ (H.J.) HNZ (8)	2551.3	12	201.7	-25	7.9	11.9	6.9	32.1	35	-13	5	15132	1.24
HERSHEY FOODS HSY	988.5	0	87.0	10	8.8	8.0	10.1	17.1	44	3	-1	9346	1.56
HORMEL FOODS HRL (2)	983.0	10	50.4	21	5.1	4.7	12.8	18.5	18	4	20	3456	1.37
INTERSTATE BAKERIES IBC (7)	1053.5	2	16.7	116	1.6	0.7	7.1	14.6	21	-1	19	1288	1.22
KELLOGG K	2061.8	40	152.6	65	7.4	6.3	8.3	57.5	28	-6	-1	15000	1.32
KRAFT FOODS KFT	7147.0	-1	693.0	113	9.7	4.5	6.2	9.4	31	NA	NA	72783	1.34
LANCASTER COLDEN LANC (6)	270.9	2	28.8	51	10.6	7.2	18.4	17.8	17	6	7	1425	2.34
MCCORMICK MKC (1)	518.9	4	33.8	27	6.5	5.3	16.3	32.3	24	0	26	3647	1.10
PILGRIM'S PRIDE CHX (3)	600.8	11	1.3	NM	0.2	NM	6.6	13.6	11	22	1	575	1.30
RALCDRP RAH (3)	313.5	10	14.6	90	4.7	2.7	8.4	12.6	17	22	-40	838	1.68
SARA LEE SLE (6)	4200.0	4	257.0	7	6.1	6.0	23.7	110.6	11	-27	14	16548	1.95
SEABOARD SEB	442.9	2	4.6	-40	1.0	1.8	6.4	10.1	8	8	33	412	33.79
SMITHFIELD FOODS SFD (8)	2086.3	36	54.5	-33	2.6	5.3	8.5	16.8	10	37	39	2352	2.07
STARBUCKS SBUX (3)	783.2	24	32.1	0	4.1	5.1	12.6	12.7	46	26	25	9053	0.51
TYSON FOODS TSN (3)	5840.0	214	65.0	NM	1.1	NM	3.5	7.5	17	15	4	5240	0.85
WRIGLEY (WM.) JR. WWY	599.0	8	85.3	5	14.2	14.7	28.7	28.7	35	6	9	12743	1.63

(C) FOOD RETAILING

GROUP COMPOSITE	44307.1	0	1178.8	21	2.7	2.2	7.1	15.7	20	30	4	64999	1.42
ALBERTSON'S ABS (11)	9660.0	1	290.0	32	3.0	2.3	4.5	8.5	27	26	-10	13516	1.23
GREAT ATLANTIC & PACIFIC TEA GAP (10)	2512.0	-2	26.5	NM	1.1	NM	-4.8	-10.7	NM	-1	NA	972	-1.99
INGLES MARKETS IMKA (3)	493.2**	4	3.3	5	0.7	0.7	2.2	7.6	15	5	-1	277	0.79
KROGER KR (11)	12128.6	-4	350.5	-5	2.9	2.9	8.8	29.8	18	NA	8	18187	1.30
PATHMARK STORES PTMK (11)	1002.5	-5	-55.3	NM	NM	NM	-24.9	-69.3	NM	NA	NA	690	-7.96
PENN TRAFFIC PNFT (11)	615.0**	-7	-20.2	NM	NM	NM	-20.9	-65.9	NM	NA	NA	200	-4.77
PUBLIX SUPER MARKETS PUSH	4200.0**	8	195.2	29	4.6	3.9	20.8	20.8	12	10	17	6899	2.88
SAFEWAY SWY	7932.3	3	332.1	17	4.2	3.7	10.3	22.1	16	37	20	20012	2.56

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL.	12 MONTHS' EARNINGS PER SHARE
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %		
7-ELEVEN SE	2213.0**	-1	-4.8	NM	NM	0.2	4.8	74.9	12	NA	1	980	0.75
WIS MARKETS WMK	504.4	4	14.8	-14	2.9	3.5	8.7	9.1	19	-5	-3	850	1.68
WINN-DIXIE STORES WIN ⁽⁶⁾	3046.1	1	46.6	335	1.5	0.4	8.2	14.7	20	-11	-27	2416	0.88
11 FUEL													
INDUSTRY COMPOSITE	115221.0	-20	3841.3	-71	3.3	9.3	7.0	10.9	26	17	7	610730	1.71
(A) COAL, OIL & GAS													
GROUP COMPOSITE	105690.9	-22	3310.5	-74	3.1	9.4	7.5	11.4	25	17	9	516311	1.82
AMERADIA HESS AHC	3021.0	-28	141.0	-58	4.7	8.1	7.0	14.9	10	8	65	6883	8.03
ANADARKO PETROLEUM APC	1373.0	-54	89.0	-87	6.5	22.1	-6.9	-12.1	NM	52	NA	13340	3.16
APACHE APA	521.7	-35	80.7	-71	15.5	35.2	7.1	12.2	17	23	35	8133	3.57
ARCH COAL ACI	367.2	-2	-7.4	NM	NM	1.6	-0.5	-1.1	NM	-4	-31	1164	-0.14
ASHLAND ASH ⁽³⁾ †	1616.0	-4	-21.0	NM	NM	1.6	8.8	15.3	9	5	16	2839	4.79
BURLINGTON RESOURCES BR	683.0	-41	48.0	-86	7.0	28.9	3.5	7.7	32	8	13	9002	1.38
CHEVRONTXACO CVX	19156.0	-30	725.0	-70	3.8	8.9	5.1	6.5	43	13	4	94844	2.09
CONOCO COC	7998.0*	-25	82.0	-87	1.0	5.8	6.7	16.3	17	15	21	17831	1.67
CONSOL ENERGY CNX	552.0**	-12	5.5	-95	1.0	16.1	7.7	21.8	34	2	4	1889	0.70
DEVON ENERGY OVN	938.0**	-9	62.0	-82	6.6	34.0	-2.5	-7.5	NM	60	-14	7800	-2.08
EXXON MOBIL XOM	38740.0***	-26	2090.0	-58	5.4	9.6	14.7	16.7	23	13	8	277807	1.77
FRONTIER OIL FTO	336.4	-22	0.3	-94	0.1	1.0	27.3	60.7	6	34	83	574	3.84
KERR-McGEE KMG	809.4	-23	0.9	NM	0.1	33.5	2.0	5.0	39	19	7	6036	1.56
MARATHON OIL MRO	6409.0	-26	54.0	-89	0.8	5.8	8.4	17.5	10	NA	10	8988	2.81
MASSEY ENERGY MEE	323.5	3	-2.1	NM	NM	0.5	NA	NA	NA	NA	NA	1000	NA
MURPHY OIL MUR	829.9	-30	2.5	-97	0.3	8.2	11.7	15.7	18	7	22	4263	5.16
OCCIDENTAL PETROLEUM OXY	2525.0	-44	120.0	-77	4.8	11.4	6.4	14.1	14	10	35	11007	2.11
PEABODY ENERGY BTU	710.6**	NA	22.3	NA	3.1	NA	2.0	4.0	NA	NA	NA	1425	0.82
PENNZOIL-QUAKER STATE PZL	563.6	0	21.0	153	3.7	1.5	0.1	0.3	NM	29	NA	1734	0.02
PHILLIPS PETROLEUM P	8324.0	71	-25.0	NM	NM	10.0	4.8	7.9	15	22	11	23205	4.08
SUNOCO SUN	2490.0	-23	-106.0	NM	NM	3.3	6.3	12.0	16	22	15	2644	2.14
TESORO PETROLEUM TSO	1243.2***	1	-55.6	NM	NM	1.8	0.4	0.8	16	19	-2	300	0.44
UNOCAL UCL	1038.0**	-53	22.0	-92	2.1	13.2	4.7	10.5	28	6	7	9248	1.36
VALERO ENERGY VLO	5122.4	36	-38.6	NM	NM	3.6	5.2	9.3	7	24	35	4355	6.26
(B) PETROLEUM SERVICES													
GROUP COMPOSITE	9530.2	0	530.9	-31	5.6	8.1	4.7	7.9	37	20	-8	94419	1.16
BAKER HUGHES BHI	1260.9	3	75.8	8	6.0	5.7	8.7	13.2	30	12	-10	13050	1.31
BJ SERVICES BJS ⁽³⁾	442.4	-20	39.0	-52	8.8	14.7	21.9	23.2	20	9	33	6016	1.90
COOPER CAMERON CAM	366.9**	10	19.5	36	5.3	4.3	7.5	11.0	31	11	-11	3054	1.83
FMC TECHNOLOGIES FTI	423.6	-1	5.0	NM	1.2	NM	11.2	19.7	31	NA	NA	1498	0.74
NABORS INDUSTRIES NBR	360.8	-30	42.1	-49	11.7	16.2	8.8	15.9	25	34	11	6791	1.94
NATIONAL-OILWELL NOI	389.0	8	21.2	-1	5.4	6.0	8.9	12.0	22	47	4	2261	1.28
NOBLE AFFILIATES NBL	315.1	-44	-15.1	NM	NM	18.9	0.6	1.3	NM	6	10	2249	0.19
PRIDE INTERNATIONAL POE	282.9	-20	0.6	-98	0.2	10.1	1.5	3.2	50	40	-41	2521	0.38
SCHLUMBERGER SLB	3309.4	10	172.5	-27	5.2	7.8	2.9	5.5	71	8	-17	32797	0.80
SMITH INTERNATIONAL SII	827.4	-4	28.7	-16	3.5	4.0	7.4	15.0	25	20	6	3621	2.94
TRANSOCEAN SECO FOREX RIG	667.9	21	77.3	153	11.6	5.5	2.1	3.3	39	45	-16	12338	0.99
VARCO INTERNATIONAL VRC	315.8	15	19.2	0	6.1	7.0	7.1	9.8	25	30	-19	2064	0.86
WEATHERFORD INTERNATIONAL WFT	568.2	8	45.2	4	8.0	8.3	6.5	11.8	30	33	5	6159	1.75
12 HEALTH CARE													
INDUSTRY COMPOSITE	166540.3	13	13560.5	16	8.1	8.0	14.7	20.7	33	12	11	1504382	1.36
(A) DRUG DISTRIBUTION													
GROUP COMPOSITE	52088.8	28	678.9	NM	1.3	0.1	6.7	10.0	47	23	21	99018	0.81
AMERISOURCEBERGEN ABC ⁽³⁾	10944.3	214	91.9	192	0.8	0.9	4.7	7.4	30	229	21	7897	2.52
CARDINAL HEALTH CAH ⁽⁶⁾	13242.0	5	300.3	56	2.3	1.5	12.5	17.4	30	44	30	31848	2.36
O&K HEALTHCARE RESOURCES OKWO ⁽⁶⁾	695.2	42	7.3	128	1.1	0.7	6.3	11.4	26	53	62	498	1.33
DUANE READE DRD	305.8	13	5.3	101	1.7	1.0	5.3	9.6	25	128	-4	751	1.27
HERBALIFE INTERNATIONAL HERBB	265.8	8	19.9	133	7.5	3.5	20.4	19.1	11	14	-3	603	1.68
LONGS DRUG STORES LDG ⁽¹¹⁾	1213.4	10	21.8	172	1.8	0.7	5.1	6.5	24	6	-4	1145	1.25
McKESSON MCK ⁽⁹⁾	12991.2**	14	125.4	NM	1.0	NM	8.6	10.6	29	32	NA	11902	1.43
OMNICARE OCR	638.3	21	28.8	59	4.5	3.4	4.5	7.2	31	12	0	2619	0.90
PRIORITY HEALTHCARE PHCC	266.5	58	9.6	10	3.6	5.2	11.2	10.5	43	55	41	1230	0.65
RITE AID RAO ⁽¹⁰⁾	4037.9	-2	-257.9	NM	NM	NM	-20.3	NM	NM	NA	NA	1683	-1.68
WALGREEN WAG ⁽⁴⁾	7488.5	16	326.6	10	4.4	4.6	16.4	16.4	41	21	19	38842	0.92
(B) DRUGS & RESEARCH													
GROUP COMPOSITE	44970.1	6	7525.0	-2	16.7	18.1	20.6	28.4	29	13	9	877865	1.46
ABBOTT LABORATORIES ABT	4189.3	18	854.3	NM	20.4	NM	19.6	29.0	32	15	0	83945	1.67
ALLERGAN AGN	441.7	4	43.8	-19	9.9	12.7	15.0	25.6	41	4	23	8628	1.62
ALPHARMA ALO	272.7**	1	-31.1	NM	NM	8.8	-4.7	-9.1	NM	41	NA	831	-2.06
AMGEN AMGN	1008.5	12	340.9	12	33.8	33.8	21.2	23.3	47	23	15	52282	1.07
BIOGEN BGEN	288.3	22	72.1	0	25.0	30.4	19.6	19.1	23	24	49	6170	1.79

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL.	12 MON EARN PER SHA
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %			
BRISTOL-MYERS SQUIBB BMY	4082.0	-13	585.0	-53	14.3	26.5	11.0	17.4	31	10	2	56907	0.9	
FOREST LABDRATORIES FRX ⁽⁹⁾	436.8**	35	96.6	40	22.1	21.3	22.4	22.4	42	10	20	13623	1.1	
GENENTECH DNA	585.2**	16	95.3	194	16.3	6.4	3.7	3.7	86	32	4	18549	0.1	
IMMUNEX IMNX	272.0	25	34.9	-12	12.8	18.3	8.0	7.8	90	82	410	14183	0.2	
IVAX VX	272.2	5	15.9	-74	5.8	23.1	11.7	29.9	12	0	119	2289	0.1	
LILLY (ELI) LLY	2561.1	-9	629.2	-22	24.6	28.8	25.7	37.0	28	5	15	76388	2.1	
MEDIMMUNE MEDV	329.6	34	-1114.6	NM	NM	32.1	-57.3	-65.7	NM	95	27	6776	-4.2	
MERCK MRK	12169.3	7	1625.0	-2	13.4	14.6	28.2	45.2	18	6	15	126296	3.1	
PFIZER PFE	8418.0	11	2373.0	23	28.2	25.4	39.2	44.8	29	22	16	234571	1.2	
PHARMACIA PHA	3127.0	-3	393.0	89	12.6	6.5	9.4	11.7	37	30	11	53886	1.1	
SCHERING-PLOUGH SGP	2556.0	11	600.0	6	23.5	24.5	27.3	27.8	20	29	12	40506	1.3	
SIGMA-ALORICH SIAL	316.9	4	39.7	8	12.5	12.0	14.2	17.2	26	-4	3	3606	1.9	
WYETH WYE	3643.5	7	871.9	19	23.9	21.5	21.2	59.5	33	-17	3	78429	1.8	

(C) HEALTH-CARE SERVICES

GROUP COMPOSITE	51066.6	9	2257.1	60	4.4	3.0	5.7	9.2	41	4	38	170790	1.0
AETNA AET	5264.7**	-18	88.0	NM	1.7	NM	-1.3	-1.6	NM	0	NA	7197	-1.0
AMERIGROUP AMGP	272.8	44	9.9	40	3.6	3.7	18.0	17.0	13	NA	NA	536	2.1
ANTHEM ATH	2748.6	10	99.8	41	3.6	2.8	12.9	17.4	NA	NA	NA	7344	NM
APRIA HEALTHCARE GROUP AHG	301.3	11	23.0	35	7.6	6.3	14.9	32.0	18	-1	16	1422	1.4
BEVERLY ENTERPRISES BEV	621.8	-6	20.5	NM	3.3	NM	-23.5	-77.1	NM	-17	NA	885	-2.1
CAREMARK RX CMX	1614.1	17	62.5	62	3.9	2.8	106.1	NM	25	NA	67	4546	0.8
CDMMUNITY HEALTH SYSTEMS CYH	533.5	34	27.2	151	5.1	2.7	3.0	5.7	41	77	NA	2792	0.6
CDVENTRY HEALTH CARE CVH	848.5	13	28.4	53	3.4	2.5	13.6	17.2	22	52	38	2035	1.4
EXPRESS SCRIPTS ESRX	2749.1	32	44.0	57	1.6	1.3	11.5	16.0	32	44	39	4446	1.7
GENESIS HEALTH VENTURES GHVI (3)	678.9	9	29.4	NM	4.3	NM	-75.4	NM	NM	NA	NA	757	-23.7
HCA HCA	4873.0	8	385.0	18	7.9	7.2	7.8	18.4	26	-13	0	24058	1.8
HEALTH MANAGEMENT ASSOCIATES HMA (3)	579.9	21	69.2	42	11.9	10.1	12.0	18.1	24	24	18	5194	0.8
HEALTH NET HNT	2469.8	-1	58.8	39	2.4	1.7	5.8	8.4	36	20	-11	3649	0.8
HEALTHSOUTH HRC	1129.8	4	107.7	43	9.5	6.9	3.4	6.2	25	15	-5	5813	0.5
HUMANA HUM	2732.6**	11	46.8	75	1.7	1.1	7.4	8.8	20	1	29	2836	0.8
KINOREO HEALTHCARE KIND	811.2	8	18.2	-63	2.2	6.5	8.0	10.7	13	NA	NA	798	3.5
LABDRATORY CORP. OF AMERICA HLDGS. LH	590.0	12	65.8	51	11.2	8.3	12.9	18.9	35	45	49	7231	2.9
MANOR CARE HCR	716.0	12	33.7	35	4.7	3.9	4.4	7.4	35	23	-19	2673	0.74
OXFORD HEALTH PLANS OHP	1169.1**	8	71.4	6	6.1	6.3	54.5	68.3	14	-5	21	3970	3.3
PACIFICARE HEALTH SYSTEMS PHY	2863.5	-6	38.2	190	1.3	0.4	1.5	3.7	24	13	-17	1024	1.2
QUEST DIAGNOSTICS DGX	946.8	7	66.7	87	7.0	4.0	9.5	14.9	43	22	NA	9167	2.18
SELECT MEDICAL SLMC	271.9	21	10.2	66	3.7	2.7	8.4	17.1	18	NA	NA	736	0.8
SIERRA HEALTH SERVICES SIE	348.6**	15	7.4	113	2.1	1.1	7.7	22.2	27	-20	-11	560	0.73
TENET HEALTHCARE THC (7)	3484.0	15	288.0	45	8.3	6.5	8.8	15.6	29	12	-2	23873	2.56
TRIAO HOSPITALS TRI	860.9	135	40.4	418	4.7	2.1	1.1	2.2	NM	NA	NA	3084	0.43
TRIGON HEALTHCARE TGH	825.7	13	35.2	9	4.3	4.5	9.6	11.4	32	5	-8	3732	3.23
UNITEDHEALTH GROUP UNH	6013.0	6	295.0	39	4.9	3.7	19.3	25.9	29	-2	26	27755	3.07
UNIVERSAL HEALTH SERVICES UHS	804.4**	19	45.7	26	5.7	5.3	6.5	12.9	26	12	15	2775	1.76
WELLPOINT HEALTH NETWORKS WLP	3943.0**	51	141.1	46	3.6	3.7	15.5	14.0	23	17	16	9902	3.38

(D) MEDICAL PRODUCTS

GROUP COMPOSITE	18414.9	11	3099.5	22	16.8	15.3	17.2	20.9	37	16	13	356709	1.41
BARO (C.R.) BCR	301.9	6	34.7	5	11.5	11.7	15.3	18.3	20	5	11	2912	2.75
BAUSCH & LOMB BOL	414.2	3	8.8	NM	2.1	NM	2.8	5.5	38	5	-1	1957	0.96
BAXTER INTERNATIONAL BAX	1950.0	11	253.0	18	13.0	12.2	11.3	18.7	50	7	11	34137	1.15
BECTON, DICKINSON BDV (3)	1013.0	7	129.2	13	12.8	12.0	15.3	20.5	21	12	10	9684	1.78
BIDMET BMET (7)	304.6	14	61.7	61	20.2	14.3	17.8	19.3	32	17	15	7568	0.89
BOSTON SCIENTIFIC BSX	675.0	3	82.0	NM	12.1	NM	1.1	1.6	NM	21	NA	10131	0.07
DENTSPLY INTERNATIONAL XRAY	351.2	43	33.1	-4	9.4	14.0	8.8	18.8	26	10	16	3104	1.52
GUIOANT GDT	709.7	6	139.5	25	19.7	16.6	25.5	33.1	24	28	45	12008	1.67
JOHNSON & JOHNSON JNJ	8743.0	11	1834.0	18	21.0	19.8	22.5	24.6	33	17	12	195631	1.93
MEDTRONIC MDT (8)	1592.4	17	314.9	4	19.8	22.2	13.5	13.5	65	29	13	53647	0.68
DWENS & MINOR OM	966.7	5	10.8	40	1.1	0.8	5.8	14.1	22	13	28	687	0.92
ST. JUOE MEDICAL STJ	371.2	14	62.1	32	16.7	14.4	13.7	14.7	40	5	12	7333	2.08
STRYKER SYK	702.9	11	81.1	27	11.5	10.1	15.7	25.3	39	14	16	11003	1.42
ZIMMER HOLDINGS ZMH	319.1	12	54.6	52	17.1	12.6	51.6	125.8	41	NA	NA	6907	0.86

13 HOUSING & REAL ESTATE

INDUSTRY COMPOSITE	25256.7	9	1108.1	33	4.4	3.6	4.9	12.4	17	21	13	93349	2.03
--------------------	---------	---	--------	----	-----	-----	-----	------	----	----	----	-------	------

(A) BUILDING MATERIALS

GROUP COMPOSITE	10728.1	-3	91.4	126	0.9	0.4	6.8	14.8	21	10	0	33557	1.83
AMERICAN STANDARD ASD	1762.0	-2	57.0	12	3.2	3.6	13.3	NM	19	NA	51	5461	3.91
HUGHES SUPPLY HUG (11)	666.2	-10	5.2	NM	0.8	NM	4.4	7.4	23	15	-2	1012	1.88
LAFARGE NORTH AMERICA LAF	449.8	1	-53.3	NM	NM	NM	8.9	12.4	13	13	11	3180	3.37
LENNOX INTERNATIONAL LII	675.8	6	0.6	NM	0.1	NM	3.6	-7.8	NM	23	NA	840	-0.55
MARTIN MARIETTA MATERIALS MLM	331.8	10	-10.5	NM	NM	NM	5.5	9.9	19	16	5	1923	2.07

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING \$ MIL	12 MONTH EARNINGS PER SHARE
	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P E 5-2	COMMON EQUITY %	EARNING PER SHARE %		
NORTEK NTK	429.1	9	9.5	NM	2.2	0.1	3.7	17.1	12	21	10	485	3.78
OWENS CORNING OWC	1106.0	4	6.0	NM	NM	NM	NA	NM	2	NA	NA	96	0.72
PPG INDUSTRIES PPG	1875.0	11	43.0	23	2.3	2.7	7.7	12.3	24	5	9	9035	2.21
RPM ⁽⁷⁾ RPM	407.5	1	3.3	NM	0.8	NM	6.0	13.3	20	9	8	1749	0.87
TECUMSEH PRODUCTS TECUA	333.4	18	7.2	-49	2.2	3.5	3.6	3.7	27	0	11	959	1.94
USG USG	829.0	0	26.0	136	3.1	1.3	5.9	5.9	10	26	-2	310	0.71
VALSPAR VAL ⁽²⁾	431.0	28	12.6	183	2.9	1.3	3.6	9.0	38	19	1	2334	1.25
VULCAN MATERIALS VMC	587.1	-5	11.6	103	2.0	0.9	8.8	14.3	21	13	3	4749	2.23
YORK INTERNATIONAL YRK	844.4	10	14.7	NM	NM	NM	2.7	5.5	36	1	8	1424	1.02
(B) CONSTRUCTION & REAL ESTATE													
GROUP COMPOSITE	14528.7	21	1016.7	28	7.0	6.6	4.4	11.7	15	27	32	59792	2.12
BEAZER HOMES USA BZH ⁽³⁾	503.3	34	24.2	38	4.8	4.7	11.3	24.3	9	15	41	790	9.76
BOSTON PROPERTIES BXP	276.0	18	50.6	5	18.3	22.9	2.9	11.5	18	68	26	3621	2.22
CENTEX CTX ⁽³⁾	2261.2**	13	117.5	11	5.2	5.3	5.2	19.2	10	19	38	3531	6.11
CHAMPION ENTERPRISES CHB	306.4	-6	11.8	NM	NM	NM	2.8	5.5	NM	3	NA	411	0.29
CLAYTON HOMES CMH ⁽⁶⁾	280.7	3	29.2	23	10.4	8.7	8.8	9.6	21	12	4	2346	0.83
EQUITY OFFICE PROPERTIES TRUST EOP	943.4	39	219.7	67	23.3	19.4	2.7	6.3	18	13	24	12255	1.68
EQUITY RESIDENTIAL PTYS. TRUST EQR	516.4	-1	97.9	4	19.0	18.1	3.0	7.5	24	28	14	8001	1.24
FELCOR LOGGING TRUST FCH	326.0	13	6.1	NM	NM	NM	1.6	4.5	NM	21	NA	1127	1.17
HORTON (O.R.) DHI ⁽³⁾	1600.1	76	88.9	72	5.6	5.7	6.4	15.6	10	49	39	3085	2.61
HOST MARRIOTT HMT	790.0	10	12.0	NM	NM	3.7	0.3	2.1	NM	2	21	3167	0.10
HOVNIANIAN ENTERPRISES HOV ⁽²⁾	454.3**	55	18.2	162	4.0	2.4	6.7	17.0	12	14	24	969	2.59
KB HOME KBH ⁽¹⁾	915.7	12	42.7	65	4.7	3.1	8.4	20.1	9	25	43	2276	5.63
LENNAR LEN ⁽¹⁾	1241.5**	13	71.9	40	5.8	4.7	12.1	25.2	9	24	27	3689	6.28
M.O.C. HOLDINGS MDC	456.1	9	32.3	10	7.1	7.0	16.5	24.3	9	26	49	1388	5.79
NVR NVR	692.3**	30	76.7	60	11.1	9.0	48.4	84.9	14	19	81	2790	28.19
PULTE HOMES PHM	1378.7	64	68.6	75	5.0	4.7	8.1	14.6	9	20	45	3273	6.04
ROUSE RSE †	266.5	2	20.0	37	7.5	11.6	2.2	13.4	27	24	39	2303	1.21
RYLAND GROUP RYL	539.4	5	26.0	61	4.8	3.1	13.4	24.3	11	13	64	1555	10.28
STANDARD PACIFIC SPF	288.6	0	17.8	-35	6.2	9.4	8.6	17.2	10	18	65	1023	3.34
TOLL BROTHERS TOL ⁽²⁾	492.2**	4	44.5	11	9.0	8.4	10.0	22.4	11	24	30	2192	2.86
(A) LEISURE TIME INDUSTRIES													
INDUSTRY COMPOSITE	39170.0	2	1371.2	NM	3.5	NM	0.8	1.3	NM	14	6	268857	0.19
(A) EATING PLACES													
GROUP COMPOSITE	9128.2	7	673.7	36	7.4	5.8	10.2	19.2	22	5	13	62758	1.43
BRINKER INTERNATIONAL EAT ⁽⁶⁾	767.4	23	34.2	2	4.5	5.6	11.8	16.7	23	10	35	3358	1.50
CBRL GROUP CBRL ⁽⁵⁾	522.5	8	21.1	40	4.0	3.1	5.7	6.6	30	8	6	1702	1.03
CKE RESTAURANTS CKR ⁽¹¹⁾	301.1	14	8.3	NM	NM	NM	12.1	32.1	NM	30	NA	627	1.66
DARREN RESTAURANTS DRI ⁽⁷⁾	1134.4	15	66.2	34	5.8	5.0	14.1	20.8	14	NA	30	4551	1.83
McDONALD'S MCD	3597.4	2	351.7	-7	9.8	10.8	8.7	17.0	23	2	5	36500	1.24
OUTBACK STEAKHOUSE OSI	579.0	11	41.4	9	7.1	7.3	13.7	14.5	21	23	17	2790	1.74
TRICON GLOBAL RESTAURANTS YUM	1614.0	7	124.0	41	7.7	5.8	29.2	507.7	18	NA	0	9211	3.45
WENOS INTERNATIONAL WEN	612.4	10	43.4	12	7.1	7.0	11.8	19.3	22	1	10	4019	1.72
(B) ENTERTAINMENT													
GROUP COMPOSITE	16065.5	5	173.3	NM	1.1	NM	-1.9	-2.8	NM	43	6	112395	-0.58
AOL TIME WARNER AOL	9764.0	7	1.0	NM	NM	NM	2.7	3.6	NM	96	NA	82940	0.80
BLOCKBUSTER BBI	1326.0	1	66.0	NM	5.0	0.4	2.8	3.1	NM	NA	NA	5069	1.03
BOYO GAMING BYD	302.8	8	16.0	165	5.3	2.2	2.3	9.9	29	12	3	1002	0.56
HARRAH'S ENTERTAINMENT HET	983.7	13	85.2	93	8.7	5.1	4.9	18.2	23	17	16	5696	2.18
HOLLYWOOD ENTERTAINMENT HLYW	363.6	6	28.7	713	7.9	1.0	31.5	435.2	8	NA	NA	1137	2.33
MANOALAY RESORT GROUP MBG ⁽¹¹⁾ †	539.2**	9	48.2	NM	NM	0.6	1.5	5.4	50	0	-1	2501	0.71
METRO-GOLDWYN-MAYER MGM	315.1	8	90.8	NM	NM	NM	3.9	5.0	NM	21	NA	3913	0.54
MGM MIRAGE MGG	1011.9	-4	82.0	3	8.1	8.0	2.1	6.4	39	23	9	6411	1.04
PARK PLACE ENTERTAINMENT PPE	1158.0	0	40.0	11	3.5	3.9	0.3	0.8	NM	NA	NA	3658	0.10
TRUMP HOTELS & CASINO RESORTS DJT	301.2	7	4.6	NM	NM	NM	-0.7	14.6	NM	27	NA	68	0.59
(C) HOTEL & MOTEL													
GROUP COMPOSITE	3948.0	-8	148.0	-38	3.7	5.5	2.1	5.1	54	13	-3	24090	0.55
HILTON HOTELS HLT	690.0	17	34.0	38	4.9	6.6	2.2	8.1	41	8	10	5937	0.39
MARRIOTT INTERNATIONAL MAR	2364.0	-4	82.0	-32	3.5	4.9	3.1	5.7	57	24	1	10586	0.77
STARWOOD HOTELS & RESORTS HOT	894.0	-12	32.0	-48	3.6	6.1	1.3	3.2	63	45	6	7567	0.59
(D) OTHER LEISURE													
GROUP COMPOSITE	10028.2	0	376.2	165	3.8	1.4	5.7	9.7	34	6	2	69614	0.90
AMERICAN GREETINGS AM ⁽¹⁰⁾	656.3	-1	-13.1	NM	NM	NM	-7.0	-13.6	NM	-8	NA	1212	-1.92
BRUNSWICK BC	866.7	5	13.2	67	1.5	4.3	3.3	5.0	45	3	10	2582	0.66
CARNIVAL CCL ⁽¹⁾	905.8	10	129.6	1	14.3	12.7	9.6	13.9	21	18	11	19726	1.58
EASTMAN KODAK EK	2707.0	9	39.0	74	1.4	5.0	0.8	1.2	NM	6	15	9368	0.13
FLEETWOOD ENTERPRISES FLE ⁽⁶⁾	522.4	1	17.3	NM	NM	NM	12.7	29.2	NM	8	NA	389	-1.70
HARLEY-DAVIDSON HD	940.0**	20	120.0	30	12.8	11.8	20.9	25.2	35	21	25	16027	1.52

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL	M E A R S
	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %		
HASBRO HAS	452.3	-2	-17.1	NM	NM	NM	3.1	5.1	43	-6	-16	2821	0
MATTEL MAT	742.0	4	-4.0	NM	NM	NM	12.9	21.5	27	1	-16	8812	0
PDLARIS INDUSTRIES PII	299.2	3	11.6	12	3.9	3.6	31.5	38.1	19	8	15	1741	3
ROYAL CARIBBEAN CRUISES RCL	800.0	10	52.8	1	6.6	7.2	2.8	6.8	18	28	8	4566	1
THOR INDUSTRIES THO ⁽⁵⁾	269.2	55	7.7	143	2.9	1.8	10.0	10.0	26	14	19	870	2
TRANS WORLD ENTERTAINMENT TWMC ⁽¹¹⁾	511.0	-8	34.5	-14	6.8	7.2	3.9	4.0	21	45	35	339	0
UNITED DEFENSE INDUSTRIES UDI	356.4	22	19.2	276	5.4	1.7	19.9	NM	21	NA	NA	1161	1
15 MANUFACTURING													
INDUSTRY COMPOSITE	44267.5	-4	1623.1	-25	3.7	4.7	5.5	9.8	39	8	2	250607	1
(A) GENERAL MANUFACTURING													
GROUP COMPOSITE	17496.9	2	1010.8	11	5.8	5.3	10.5	16.9	28	4	1	102176	2
EVERETT DENNISON AVY	930.8	-3	64.8	2	7.0	6.6	15.2	25.7	27	1	9	6574	2
BLUTH 8TH ⁽¹¹⁾	368.6	11	13.6	21	3.7	3.4	10.8	14.5	21	25	27	1389	1
CARLISLE CSL	455.1	-2	12.8	NM	2.8	NM	4.7	8.7	26	13	-8	1253	1
ENERGIZER HOLDINGS ENR ⁽³⁾	339.7	-4	20.0	257	5.9	1.6	-1.0	-1.2	NM	NA	NA	2257	-0
FORTUNE BRANDS FO	1196.0	1	84.0	37	7.0	5.2	11.6	19.5	21	-14	17	8161	2
GRIFFON GFF ⁽³⁾	267.3	1	4.8	62	1.8	1.1	9.4	12.6	18	11	-1	631	1
HARSCO HSC	458.6	-9	15.0	34	3.3	2.2	5.3	11.1	23	-1	-3	1759	1
INTL. GAME TECHNOLOGY IGT ^{(3) †}	530.4	70	73.9	38	13.9	17.1	8.7	16.2	21	-24	21	4615	2
JOHNSON CONTROLS JCI ⁽³⁾	4810.5	5	114.8	38	2.4	1.8	9.9	17.8	16	15	19	7738	6
NEWELL RUBBERMAID NWL	1597.0	-1	51.0	33	3.2	2.4	6.4	14.7	32	12	-13	8828	1
PARKER HANNIFIN PH ⁽⁶⁾	1578.3	2	52.4	-43	3.3	5.9	5.2	7.3	31	13	8	5927	1
SHAW GROUP SGR ⁽⁴⁾	566.2	66	21.3	81	3.8	3.5	6.9	12.7	18	47	24	1296	1
TELEFLEX TFX	508.4	8	30.4	1	6.0	6.4	11.0	14.0	20	14	13	2239	2
3M MMM	3890.0	-7	452.0	0	11.6	10.9	18.1	23.8	35	1	0	49509	3
(B) MACHINE & HAND TOOLS													
GROUP COMPOSITE	3638.1	-4	129.2	-17	3.6	4.1	3.5	6.4	45	1	6	12685	0
BLACK & DECKER BDK	951.7	-3	33.0	0	3.5	3.4	5.5	14.0	38	-17	1	3992	1
KENAMETAL KMT ⁽⁶⁾	393.9	-16	13.1	-36	3.3	4.4	3.4	4.1	38	14	-11	1234	1
NACCO INDUSTRIES NC	576.5	-20	6.3	-56	1.1	2.0	-4.1	-8.1	NM	8	NA	615	-5
SNAP-ON SNA	517.3**	-4	21.7	-26	4.2	5.4	1.1	1.8	NM	-1	-23	1884	0
STANLEY WORKS SWK	616.7	-1	48.9	5	7.9	7.5	15.0	18.3	26	3	13	3980	1
TEREX TEX	582.0	22	6.2	-50	1.1	2.6	0.6	1.6	85	85	-17	980	0
(C) SPECIAL MACHINERY													
GROUP COMPOSITE	21830.6	-9	437.8	-59	2.0	4.5	3.3	5.8	57	11	2	131059	0
AGCO AG	618.6	16	-2.1	NM	NM	NM	1.8	3.4	59	-2	-47	1631	0
APPLIED MATERIALS AMAT ⁽²⁾	1000.5	-58	-45.5	NM	NM	18.0	3.7	4.0	NM	29	18	37502	0
BRIGGS & STRATTON BGG ⁽⁶⁾	516.8	20	37.6	26	7.3	6.9	2.9	6.4	34	-1	5	907	1
CATERPILLAR CAT	4409.0	-8	80.0	-51	1.8	3.4	4.1	12.7	26	6	-10	18765	2
CRANE CR	371.5	-2	20.8	3	5.6	5.3	9.3	13.7	19	6	2	1685	1
CUMMINS CUM	1333.0	-1	-29.0	NM	NM	NM	-4.9	-10.6	NM	-4	NA	1625	-2
DEERE DE ⁽²⁾	2522.1**	-7	-38.1	NM	NM	2.1	-1.5	-4.0	NM	2	NA	10508	-0
DEERE & CO DCI ⁽⁵⁾	264.3	-5	20.8	15	7.9	6.5	18.4	23.7	24	6	15	1902	1
DOVER DOV	1009.9	-17	45.1	-42	4.5	6.4	4.1	6.0	57	11	-6	7671	0
FLUOR FLS	447.1	1	12.7	NM	2.8	NM	2.7	8.9	38	8	-29	1563	0
ILLINOIS TOOL WORKS ITW	2204.7	-4	194.4	7	8.8	7.9	11.3	13.7	27	22	7	22211	2
INGERSOLL-RAND IR	2305.9	1	80.9	64	3.5	2.2	4.5	7.0	30	14	-2	8393	1
ITT INDUSTRIES ITT	1185.8	0	71.5	21	6.0	5.0	12.5	16.7	28	11	16	6215	2
JOY GLOBAL JOYG ⁽²⁾	286.4	7	-29.1	NM	NM	NM	-6.4	-10.8	NA	NA	NA	670	1
MANITOWOC MTW	301.3	31	6.6	-33	2.2	4.3	6.4	16.9	23	22	17	1038	1
MCDERMOTT INTERNATIONAL MDR	399.2	49	-1.8	NM	NM	NM	-2.1	-2.4	NM	10	NA	946	-0
METTLER-TOLEDO INTERNATIONAL MTD	273.0	3	18.7	29	6.8	5.5	10.5	18.8	22	97	24	1691	1
MILACRON MZ	275.4	-19	-13.1	NM	NM	1.0	-5.7	-12.2	NM	0	NA	443	-1
PENTAIR PNR	613.4	-9	21.4	4	3.5	3.1	3.4	5.8	42	17	-9	2414	1
STEWART & STEVENSON SERVICES SSSS ⁽¹¹⁾	306.8	-6	0.1	-99	0.0	3.2	10.1	11.6	12	-6	25	546	1
TIMKEN TKR	615.8	-7	9.2	314	1.5	0.3	-3.0	-4.4	NM	-3	NA	1577	-0
TORCO TTC ⁽²⁾	277.9	-1	-5.1	NM	NM	0.5	8.7	14.1	17	10	13	712	3
UNOVA UNA	292.4	-27	-18.2	NM	NM	NM	-44.2	-79.1	NM	-8	NA	444	-5
(D) TEXTILES													
GROUP COMPOSITE	1301.9	9	45.2	177	3.5	1.4	5.5	108.6	20	1	31	4687	1
MOHAWK INDUSTRIES MHK	866.7	11	43.2	59	5.0	3.5	7.6	21.6	17	23	31	4409	3
WESTPOINT STEVENS WXS	435.1	4	2.0	NM	0.5	NM	-1.8	NM	NM	NA	NA	278	-0
16 METALS & MINING													
INDUSTRY COMPOSITE	14780.7	-14	20.3	-96	0.1	2.7	-3.6	-7.0	NM	8	3	53036	-0
(A) STEEL													
GROUP COMPOSITE	6560.3	-4	-230.9	NM	NM	NM	-16.3	-32.3	NM	3	-9	12147	-3
AK STEEL HOLDING AKS	1010.1	1	-25.6	NM	NM	NM	-4.5	-10.5	NM	9	NA	1360	-0
ALLEGHENY TECHNOLOGIES ATI	493.1	-9	-11.1	NM	NM	1.2	-3.0	-4.5	NM	1	NA	1368	-0

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL.	12 MONTHS EARNINGS PER SHARE
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %			
LEHEM STEEL BS	803.8	-8	-97.3	NM	NM	NM	NA	NM	NM	NA	NA	52	15.14	
COMMERCIAL METALS CMC (4)	566.4	-2	6.6	295	1.2	0.3	5.6	8.7	15	6	-4	629	3.02	
UCOR NUE	1028.2	0	20.3	-38	2.0	3.2	3.4	4.6	46	6	-8	4645	1.29	
SON TULL RT	516.9	-19	-1.0	NM	NM	0.2	-11.0	-11.4	NM	-8	NA	285	-2.53	
AS INDUSTRIES TXI (7)	305.0	19	6.1	NM	2.0	NM	2.0	4.0	29	12	-14	838	1.39	
IO STATES STEEL X	1431.0	-5	-83.0	NM	NM	0.6	-7.9	-12.4	NM	NA	NA	1656	-3.48	
ORTHINGTON INDUSTRIES WOR (7)	405.7	-3	-45.9	NM	NM	0.4	-0.7	-1.0	NM	-1	-11	1314	0.06	
I) OTHER METALS														
GROUP COMPOSITE	8220.4	-21	251.2	-54	3.1	5.3	2.4	4.8	57	12	7	40889	0.55	
COA AA	4983.0	-19	184.0	-54	3.7	6.5	3.7	6.6	43	23	10	29150	0.81	
WILHARD EC	1001.8	-38	52.4	10	5.2	3.0	18.5	22.5	18	3	22	4026	1.74	
REPORT-McMORAN COPPER & GOLD FCX	392.7	-12	8.1	-83	2.1	10.5	1.3	32.0	68	NA	-18	2534	0.26	
ERIAL CABLE BGC	361.4	-20	4.9	-67	1.4	3.3	5.1	24.6	14	0	-3	385	0.83	
UELLER INDUSTRIES MLI	268.0**	-3	17.9	16	6.7	5.6	8.8	10.0	18	14	7	1139	1.86	
OLN	295.0	-12	-11.3	NM	NM	0.7	-3.6	-7.4	NM	-25	NA	841	-0.54	
PLPS OOOGE PD	918.5	-17	-4.8	NM	NM	1.5	-5.6	-11.0	NM	2	NA	2814	-3.75	
J) NONBANK FINANCIAL														
INDUSTRY COMPOSITE	162433.6	-7	18919.4	18	11.6	9.2	4.2	12.7	21	19	12	1175737	2.18	
K) FINANCIAL SERVICES														
GROUP COMPOSITE	92961.8	-15	11797.2	15	12.7	9.4	3.6	16.4	19	29	15	683888	2.42	
ERICAN EXPRESS AXP	5759.0	1	618.0	15	10.7	9.4	7.3	11.6	41	7	0	56195	1.04	
ERICREDIT ACF (6)	306.7	41	91.6	52	29.9	27.8	16.5	26.1	11	46	47	3318	3.62	
AR STEARNS BSC (11)	1718.1	-20	180.5	9	10.5	7.8	1.9	12.1	14	16	9	6298	4.50	
CK (H&R) HRB (8)	728.0	11	29.6	564	4.1	0.7	18.7	35.7	23	3	28	8039	1.87	
ITAL ONE FINANCIAL COF	2133.5	27	188.0	31	8.8	8.6	4.9	18.7	20	33	33	13349	3.08	
GROUP C	25894.0**	-13	4890.0	37	18.9	12.0	8.7	19.4	15	45	23	231434	2.97	
INCORO EFS CEFT	462.1	23	54.2	NM	11.7	NM	15.0	16.0	57	55	36	16639	0.57	
ENTRYWIDE CREDIT INDUSTRIES CCR	1809.4	NA	167.6	NA	9.3	NA	NA	NA	NA	20	8	5828	NA	
N & BROADSTREET DNB	318.5	-11	35.6	15	11.2	8.6	56.4	NM	20	NA	-16	3014	1.96	
TRADE GROUP ET	490.6	-12	19.4	NM	3.9	NM	-8.7	-18.3	NM	85	NA	2357	-0.74	
OWARDS (A.G.) AGE (10)	581.9	-11	-37.0	NM	NM	7.0	4.3	4.3	47	9	17	3312	0.88	
IE MAE FNM	12987.6	5	1320.2	12	10.2	9.5	1.5	32.2	13	11	16	79300	6.04	
ELITY NATIONAL FINANCIAL FNF	1066.9	37	101.0	124	9.5	5.8	16.0	21.1	8	71	12	2725	4.15	
RST AMERICAN FAF	1043.0**	36	44.1	135	4.2	2.4	11.2	17.4	9	26	11	1545	2.57	
RANKLIN RESOURCES BEN (3)	626.0**	8	120.0	-9	19.2	22.8	9.5	10.5	25	21	8	11128	1.67	
MAN SACHS GROUP GS (11)	5700.0	-40	524.0	-32	9.2	8.1	3.9	11.2	21	NA	NA	38306	3.84	
SEHOLD INTERNATIONAL HI	3710.4	8	511.0	18	13.8	12.6	3.5	24.2	13	22	21	26253	4.26	
STNET GROUP INET	270.4**	-37	-34.7	NM	NM	11.6	4.1	4.1	28	NA	NA	1741	0.25	
NOAMERICA FINANCIAL GROUP LFG	564.3	29	17.4	162	3.1	1.5	7.6	9.6	9	21	-3	650	3.82	
MAN BROTHERS HOLOINGS LEH (1)	4226.0	-37	298.0	-23	7.1	5.7	2.2	13.2	16	19	30	15168	3.97	
ARSH & McLENNAN MMC	2635.0	0	418.0	13	15.9	14.0	13.6	19.8	28	21	16	27446	3.59	
ER LL LYNCH MER	7563.0	-37	647.0	-26	8.6	7.3	0.3	1.6	NM	27	-10	36399	0.16	
ETRIS MXT	481.2	21	52.3	-7	10.9	14.1	14.4	28.5	5	41	51	817	2.59	
GAN STANLEY DEAN WITTER MWD (1)	8540.0	-33	848.0	-21	9.9	8.5	4.7	16.5	16	25	18	53783	3.01	
AYMONO JAMES FINANCIAL RJF (3)	378.3	-13	18.8	-17	5.0	5.2	8.2	9.9	22	18	8	1683	1.59	
WAB (CHARLES) SCH	1153.0**	-25	94.0	-3	8.2	6.3	1.6	1.8	NM	42	-8	15259	0.06	
TEWART INFORMATION SERVICES STC	348.0**	42	11.3	269	3.3	1.3	13.4	14.1	6	15	-14	353	3.37	
LWELL FINANCIAL SV †	328.3	27	97.2	-13	29.6	24.8	16.1	21.1	17	NA	NA	4684	1.24	
UDENT LOAN STU	268.9	-13	49.7	123	18.5	7.2	20.7	23.7	12	12	19	1920	8.13	
SA EDUCATION SLM	869.8	-21	422.3	NM	48.6	2.7	4.0	42.8	20	15	2	14945	4.75	
L) INSURANCE														
GROUP COMPOSITE	60930.1	6	5469.7	16	9.0	8.2	4.7	7.2	33	10	5	418828	1.55	
CE ACE	1545.7	0	197.8	40	12.8	9.1	-1.1	-1.5	NM	23	NA	9530	-0.58	
AC AFL	2371.0	-2	183.0	3	7.7	7.4	10.8	12.8	24	18	12	15862	1.29	
LLSTATE ALL	7298.0	2	426.0	-16	5.8	7.1	5.1	6.3	26	4	-7	28380	1.52	
ERICAN FINANCIAL GROUP AFG	942.9	-4	41.8	219	4.4	1.3	0.9	1.6	84	-2	NA	2023	0.35	
ERICAN INTERNATIONAL GROUP AIG	14630.2**	11	1980.3	6	13.5	14.2	6.6	11.4	33	19	9	187030	2.17	
ERICAN NATIONAL INSURANCE ANAT	589.6	30	42.1	15	7.1	8.1	2.2	2.4	37	4	-19	2622	2.65	
N AOC	2088.0	15	104.0	447	5.0	1.0	4.8	8.1	34	5	-3	9684	1.04	
AKLEY (W.R.) BER	546.9	22	34.4	235	6.3	2.3	-4.4	-7.1	NM	-3	NA	2009	-2.36	
NA CI	4827.0**	2	218.0	-21	4.5	5.8	13.9	18.4	16	-9	6	14722	6.31	
MCINNATI FINANCIAL CINF	686.6	11	74.9	3	10.9	11.7	3.0	3.0	39	12	-8	7612	1.21	
OMMERCE GROUP CGI	312.2	14	24.2	65	7.7	5.3	12.6	10.3	14	6	8	1365	3.04	
SECO CNC	1859.3	-13	-99.9	NM	NM	3.9	-2.1	5.0	NM	NA	NA	1300	-1.81	
VEREST RE GROUP RE	574.0	40	61.1	22	10.6	12.2	4.4	5.3	29	8	2	3399	2.27	
ANTFORO FINANCIAL SERVICES GRP. HIG	3900.0	5	292.0	11	7.5	7.1	4.7	6.4	28	12	-16	16841	2.40	
EFFERSON-PILOT JP	885.2	3	139.6	-6	15.8	17.3	13.1	14.9	15	7	13	7350	3.00	
INCOLN NATIONAL LNC	1126.4**	-34	94.5	-41	8.4	9.4	8.1	10.2	17	2	39	8732	7.00	
ARKEL MKL	374.6	13	17.0	107	4.5	2.5	-7.2	-10.7	NM	30	NA	2122	0.00	

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL.	M. EARN. P. SH.
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %		
MGIC INVESTMENT MTG	375.6**	17	169.2	7	45.0	49.3	17.3	20.7	12	17	23	7662	6
NATIONWIDE FINANCIAL SERVICES NFS	816.9**	1	105.9	-6	13.0	14.0	9.5	11.9	14	10	15	5603	3
OHIO CASUALTY OCAS	434.7	-3	26.9	NM	6.2	NM	10.0	12.2	9	-3	2	1183	2
OLO REPUBLIC INTERNATIONAL ORI	639.0	17	95.5	14	14.9	15.3	12.3	12.9	11	7	9	3954	2
PMI GROUP PMI	263.3**	29	84.3	18	32.0	35.0	14.4	17.2	12	12	18	3689	7
PROGRESSIVE PGR	2065.6	17	176.2	103	8.5	4.9	11.2	14.9	9	13	-14	12741	6
RAOIAN GROUP RDN	263.8	36	103.9	30	39.4	41.4	12.7	15.8	13	47	25	4983	4
REINSURANCE GROUP OF AMERICA RGA	560.2	13	29.0	34	5.2	4.4	3.2	4.7	35	18	-6	1634	0
SAFECO SAFC	1712.6	-1	63.6	NM	3.7	NM	-2.0	-2.7	NM	-4	NA	4260	-0
ST. PAUL SPC	2317.4	7	148.3	-29	6.4	9.7	-13.1	-21.4	NM	7	NA	10171	-5
STANCORP FINANCIAL GROUP SFG	424.6	10	29.6	13	7.0	6.8	11.2	11.2	16	7	NA	1730	3
TORCHMARK TMK	699.9	5	98.2	2	14.0	14.4	12.3	15.6	13	7	6	5052	3
TRANSATLANTIC HOLOINGS TRH	613.1	26	52.9	5	8.6	10.4	1.1	1.1	NM	10	-26	4466	0
TRAVELERS PROPERTY CASUALTY TAP.A	3232.7	6	344.7	-31	10.7	16.2	6.7	8.5	NA	10	1	14996	
UICI UCI	308.3	23	12.1	-7	3.9	5.2	4.5	9.0	20	0	-16	929	0
UNITRIN UTR	511.9	9	9.2	-45	1.8	3.5	17.2	19.5	8	5	14	2814	5
XL CAPITAL XL	1132.9	51	89.5	-59	7.9	29.1	-10.0	-12.9	NM	23	NA	12378	-5
(C) SAVINGS & LOAN													
GROUP COMPOSITE	8541.7	-6	1652.5	42	19.3	12.8	NM	16.8	12	22	22	73021	3
ASTORIA FINANCIAL ASFC	359.2**	-9	61.2	8	17.0	14.3	NA	14.4	13	19	24	2936	2
CHARTER ONE FINANCIAL CF	681.3**	-2	139.8	22	20.5	16.6	NA	18.4	15	25	18	7701	2
GOLDEN STATE BANCORP GSB	915.7**	-18	122.5	32	13.4	8.3	NA	16.4	11	19	-15	4545	3
GOLDEN WEST FINANCIAL GDW	938.2**	-20	238.1	35	25.4	15.0	17.1	19.7	13	12	19	10917	5
GREENPOINT FINANCIAL GPT	429.0**	16	120.0	64	28.0	19.8	NA	25.8	10	6	20	4962	5
SOVEREIGN BANCORP SOV	602.3	-12	66.9	503	11.1	1.6	NA	7.5	21	42	2	3552	0
WASHINGTON MUTUAL WM	4616.0	-1	904.0	41	19.6	13.7	NA	16.5	12	NA	49	38408	3
18 OFFICE EQUIPMENT & COMPUTERS													
INDUSTRY COMPOSITE	106420.8	-9	7445.6	1	7.0	6.3	4.5	5.4	86	20	18	982310	0
(A) BUSINESS MACHINES & SERVICES													
GROUP COMPOSITE	9579.5	-18	227.3	-37	2.4	3.1	9.0	13.2	26	2	12	30248	1
COMPUCOM SYSTEMS CMPC	326.9	-41	2.7	49	0.8	0.3	2.8	3.0	28	6	-35	191	0
DELUXE DLX	328.9	4	54.6	28	16.6	13.4	167.7	182.7	15	-33	37	2890	2
OIEBOLO DBD	401.0	4	26.5	251	6.6	2.0	9.2	9.5	31	10	-4	2685	1
HON INDUSTRIES HNI	399.1	-14	15.9	-13	4.0	4.0	11.4	11.9	24	17	3	1740	1
MILLER (HERMAN) MLHR (7)	340.7	-39	-11.6	NM	NM	5.9	-0.8	-1.5	NM	2	32	1916	-0
NCR NCR	1247.0	-9	4.0	-97	0.3	8.8	5.1	5.1	37	8	111	3750	1
PITNEY BOWES PBI	1049.5	9	129.5	25	12.3	10.8	16.8	61.1	19	-15	7	10165	2
STANOARD REGISTER SR	263.8	-17	10.9	NM	4.1	NM	3.6	5.4	41	-1	NA	937	0
STEELCASE SCS (10)	660.4	-33	-34.3	NM	NM	2.6	0.1	0.1	NM	4	46	2498	0
TECH DATA TECD (11)	4165.0	-22	36.5	-31	0.9	1.0	5.9	8.8	23	22	11	2553	1
WALLACE COMPUTER SERVICES WCS (5)	397.1	-10	-7.3	NM	NM	3.8	3.8	5.6	38	3	-12	923	0
(B) COMPUTERS & PERIPHERALS													
GROUP COMPOSITE	58034.9	-13	2051.7	-27	3.5	4.2	4.7	6.1	68	11	10	333022	0
APPLE COMPUTER AAPL (3)	1495.0	4	40.0	-7	2.7	3.0	4.7	5.1	41	25	NA	8388	0
COMPAQ COMPUTER CPQ	7728.0	-16	44.0	-52	0.6	1.0	-5.1	-5.4	NM	12	NA	18421	-0
DELL COMPUTER DELL (11)	8061.0	-7	456.0	5	5.7	5.0	23.9	26.5	55	54	59	66270	0
EMC EMC	1302.0	-44	-76.9	NM	NM	17.0	-13.1	-13.1	NM	40	NA	18565	-0
GATEWAY GTW	992.2	-51	-123.2	NM	NM	NM	-40.5	-48.5	NM	18	NA	1630	-2
HEWLETT-PACKARD HWP (2)	11383.0	-8	478.0	23	4.2	3.1	3.8	5.0	46	0	-16	33189	0
INTERNATIONAL BUSINESS MACHINES IBM	18551.0	-12	1192.0	-32	6.4	8.3	18.1	30.3	21	2	13	144507	4
LEXMARK INTERNATIONAL LXX	1050.1	6	71.5	-10	6.8	8.1	21.5	24.4	30	15	22	7821	1
MAXTOR MXO	1044.7	66	-65.0	NM	NM	0.2	-66.6	-84.2	NM	68	NA	1592	-3
PALM PALM (7)	292.7	-38	2.9	NM	1.0	NM	-58.4	-62.5	NM	NA	NA	1566	-0
SILICON GRAPHICS SGI (6)	313.6	-38	10.3	NM	3.3	NM	-91.0	NM	NM	NA	NA	569	-1
STORAGE TECHNOLOGY STK	455.9	-3	6.0	NM	1.3	NM	7.2	7.3	28	-4	-18	2181	0
SUN MICROSYSTEMS SUNW (6)	3107.0	-24	-37.0	NM	NM	3.3	-6.6	-7.6	NM	37	20	20952	-0
SYMBOL TECHNOLOGIES SBL	301.3	-33	1.2	-96	0.4	6.2	-5.6	-6.9	NM	28	NA	1905	-0
UNISYS UIS	1362.5	-16	32.7	-53	2.4	4.3	-3.0	-4.1	NM	87	NA	4331	-0
WESTERN DIGITAL WDC (6)	594.9	16	19.2	NM	3.2	0.2	-14.5	-28.9	NM	-60	NA	1135	0
(C) COMPUTER SOFTWARE & SERVICES													
GROUP COMPOSITE	38806.4	0	5166.6	22	13.3	10.9	3.9	4.4	NM	34	29	619040	0
ADOBE SYSTEMS ADBE (1)	267.9	-19	49.8	-29	18.6	21.2	26.9	26.9	50	-2	17	9007	0
AFFILIATED COMPUTER SERVICES ACS (6)	800.7	50	62.0	76	7.7	6.6	8.5	9.8	34	25	28	6464	1
AUTOMATIC DATA PROCESSING ADP (6)	1870.0**	NA	352.3	NA	18.8	NA	21.5	22.0	30	16	14	31479	1
CAQENCE DESIGN SYSTEMS CDN	344.7	0	21.3	458	6.2	1.1	13.8	13.8	32	17	8	4923	0
CERIOIAN CEN	299.5	-3	18.6	4	6.2	5.8	3.9	4.6	66	23	-10	3195	0
CISCO SYSTEMS CSCO (5)	4816.0	-29	660.0	-24	13.7	13.0	-8.1	-8.2	NM	64	NA	100049	-0
DST SYSTEMS DST	620.9	15	58.8	8	9.5	10.1	13.6	15.8	26	18	13	5862	1

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		RETURN					5-YEAR GROWTH		MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL	12 MONTHS' EARNINGS PER SHARE
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	MARGINS		ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2				
					1ST QUARTER 2002 %	1ST QUARTER 2001 %							
AT&T LINK ELNK	333.4	13	-54.6	NM	NM	NM	-38.0	-38.1	NM	138	NA	1107	-2.33
ELECTRONIC DATA SYSTEMS EDS	5341.0	7	354.0	-25	6.6	9.4	11.1	18.6	21	3	22	26171	2.60
FIRST DATA FDC	1727.3**	8	244.3	28	14.1	11.9	14.5	26.4	33	0	21	30198	2.36
ISERV FISV	631.9	20	65.1	28	10.3	9.6	11.7	13.2	38	24	23	8444	1.15
AMESTOP GME ⁽¹¹⁾	514.2	57	18.8	436	3.7	1.1	1.8	NM	NM	NA	NA	750	0.18
ENUITY GENU	281.6	6	-257.5	NM	NM	NM	NM	NM	NM	NA	NA	175	-18.05
TECH HOLDINGS GTK ⁽¹⁰⁾	274.6	12	18.4	-29	6.7	10.5	14.2	37.3	24	-1	4	1715	2.51
NATION IMN	283.7	-5	16.8	243	5.9	1.6	1.5	1.6	NM	-5	NA	1067	0.29
GRAM MICRO IM	5616.6	-22	15.5	-42	0.3	0.4	-0.1	-0.1	NM	19	-32	2186	-0.01
INTUIT INTU ⁽⁵⁾	547.2	20	119.9	351	21.9	5.8	-2.2	-2.2	NM	54	NA	8116	-0.25
MICROSOFT MSFT ⁽⁶⁾	7245.0	13	2738.0	12	37.8	38.3	12.4	12.4	45	51	32	276688	1.14
NOVELL NOVL ⁽²⁾	271.1	11	8.4	155	3.1	1.3	-19.7	-20.0	NM	-5	NA	1284	-0.78
ORACLE ORCL ⁽⁷⁾	2229.3	-17	508.0	-13	22.8	21.8	38.5	40.5	20	30	51	46942	0.43
PEOPLESOFT PSFT	483.3	-6	44.5	24	9.2	7.0	11.7	11.7	36	41	23	6816	0.62
PERIT SYSTEMS PER	325.8	11	19.4	NM	6.0	NM	4.6	4.3	90	59	NA	1831	0.20
ABRE HOLDINGS TSG	539.4**	-6	87.4	NM	16.2	0.1	2.4	3.8	NM	10	NA	6086	0.29
SEBEL SYSTEMS SEBL	477.8	-20	64.6	-16	13.5	12.8	10.7	12.4	47	97	98	10245	0.46
SOFTWARE SPECTRUM SSPE ⁽⁸⁾	408.5	-5	7.4	98	1.8	0.9	12.9	12.9	13	-4	-8	111	2.78
INGARD DATA SYSTEMS SDS	594.2	35	70.0	30	11.8	12.2	11.7	13.9	33	33	27	8375	0.91
SYMANTEC SYMC ⁽⁹⁾	310.8	24	4.8	NM	1.5	NM	-1.5	-2.1	NM	49	NA	4740	-0.20
AKE-TWO INTERACTIVE SOFTWARE TTWO ⁽²⁾	282.9	80	34.8	157	12.3	8.6	10.1	10.1	52	146	NA	920	0.48
COM COMS ⁽⁷⁾	356.0	-43	-236.1	NM	NM	NM	-53.4	-55.4	NM	25	NA	1979	-3.16
ITAN TTN	340.5	42	7.4	NM	2.2	NM	5.0	10.9	84	60	NA	1590	0.27
ERITAS SOFTWARE VRTS	370.4	-4	44.5	NM	12.0	NM	-13.7	-15.9	NM	164	NA	10525	-1.12
3 PAPER & FOREST PRODUCTS													
INDUSTRY COMPOSITE	19741.9	-4	253.0	NM	1.3	NM	-1.0	-2.3	NM	8	2	54272	-0.55
3.1 FOREST PRODUCTS													
GROUP COMPOSITE	7285.7	-4	129.3	NM	1.8	NM	0.3	0.9	NM	11	1	15657	0.09
GEORGIA-PACIFIC GP	5796.0	-8	61.0	NM	1.1	NM	-1.8	-5.7	NM	NA	NA	6820	-1.23
LOUISIANA-PACIFIC LPX	596.7	7	-3.2	NM	NM	NM	-3.8	-7.9	NM	-4	NA	1229	-0.82
LUM CREEK TIMBER PCL	275.0	135	56.0	51	20.4	31.6	9.1	15.9	14	NA	-6	5609	2.21
RAYONIER RYN	276.3	0	9.4	-24	3.4	4.4	3.5	7.7	29	3	-5	1541	1.97
UNIVERSAL FOREST PRODUCTS UFPI	341.7	20	6.1	22	1.8	1.8	7.2	14.4	15	23	12	458	1.70
3.2 PAPER													
GROUP COMPOSITE	12456.2	-4	123.7	-3	1.0	1.0	-1.7	-3.8	NM	7	1	38615	-0.96
MOISE CASCADE BCC	1788.2	-6	-6.6	NM	NM	NM	-0.9	-1.8	NM	3	NA	1985	-0.45
WATER BOW	622.0	3	12.3	-67	2.0	6.2	1.2	2.4	57	13	-11	2796	0.87
INTERNATIONAL PAPER IP	6038.0	-12	65.0	261	1.1	0.3	-4.2	-10.6	NM	5	NA	20396	-2.28
MEYERHAEUSER WY	4008.0	13	53.0	-50	1.3	3.0	2.4	4.5	45	10	3	13438	1.36
4 PUBLISHING & BROADCASTING													
INDUSTRY COMPOSITE	28163.9	2	793.9	-39	2.8	4.7	0.2	0.3	NM	29	0	297318	0.05
4.1 BROADCASTING													
GROUP COMPOSITE	20084.3	5	236.6	-67	1.2	3.7	-0.3	-0.6	NM	35	-10	214241	-0.09
ABLEVISION SYSTEMS CVC	1102.2	5	-249.6	NM	NM	NM	-4.7	NM	NM	NA	NA	6804	-1.36
HARTER COMMUNICATIONS CHTR	1078.3	23	-174.2	NM	NM	NM	-4.6	-39.8	NM	NA	NA	2474	-3.78
OMCAST CMCSK	2672.5	20	-88.9	NM	NM	27.6	-1.8	-3.4	NM	106	-35	27288	-0.50
OX COMMUNICATIONS COX	1178.0	19	135.6	NM	11.5	NM	1.2	2.2	NM	41	-64	20563	0.32
WALT DISNEY (WALT) DIS ⁽³⁾	5904.0	-2	259.0	NM	4.4	NM	3.0	5.0	43	8	-35	48305	0.56
DISH NETWORKS DISH	1104.5	28	-38.6	NM	NM	NM	-3.0	NM	NM	NA	NA	12600	-0.30
USA NETWORKS USAI	1372.6	5	25.9	0	1.9	2.0	-0.9	-2.1	NM	29	NA	11087	-0.24
VIACOM VIA.B	5672.2	-1	367.4	NM	6.5	NM	0.2	0.2	NM	43	NA	85120	0.09
4.2 PUBLISHING													
GROUP COMPOSITE	8079.7	-4	557.3	-5	6.9	7.0	2.7	5.0	76	9	5	83077	0.67
ELO BLC	319.9	-4	16.8	NM	5.2	0.2	0.5	1.0	NM	20	NA	2583	0.13
DW JONES DJ	392.9	-15	129.8	NM	33.0	1.3	101.0	175.2	21	-48	3	4607	2.60
ANNETT GCI	1524.6	-3	243.6	40	16.0	11.1	8.3	15.7	22	14	8	19898	3.38
NIGHT-RIDDER KRI	678.2	-8	51.8	27	7.6	5.5	6.1	12.2	30	5	-3	5719	2.28
McGRAW-HILL MHP	846.7	0	29.2	43	3.4	2.4	14.2	20.8	32	7	2	12385	1.97
NEW YORK TIMES NYT	737.1	-5	54.5	-9	7.4	7.7	11.2	17.1	38	-7	23	7231	1.26
PRIMEDIA PRM	412.1	-1	-124.2	NM	NM	NM	-60.1	NM	NM	NA	NA	648	-5.20
READER'S DIGEST ASSOCIATION RDA ⁽⁸⁾	541.8	9	16.4	-41	3.0	4.7	14.6	16.6	33	4	17	2355	0.71
SCHOLASTIC SCHL ⁽⁷⁾	432.7	0	11.9	222	2.8	0.9	2.9	5.0	62	12	55	1989	0.83
CRIPPS (E.W.) SSP	359.8	-1	39.9	-40	11.1	18.3	7.6	8.2	57	7	2	6304	1.39
TRIBUNE TRB	1233.6	-5	64.0	-9	5.2	5.5	0.8	1.5	NM	35	-17	13422	0.22
WASHINGTON POST WPO	600.3	2	23.7	-88	3.9	33.9	2.1	3.2	NM	5	-4	5936	5.61

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL
	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %		
21 SERVICE INDUSTRIES													
INDUSTRY COMPOSITE	54559.1	-3	1562.6	18	2.9	2.3	2.8	5.3	58	16	9	179521	
(A) CONSTRUCTION & ENGINEERING													
GROUP COMPOSITE	4991.6	21	51.8	-7	1.0	1.4	-1.4	-2.1	NM	-6	-4	6147	
FLUOR FLR	2506.6	31	36.2	119	1.4	0.9	18.9	18.5	22	-11	-13	3315	
FOSTER WHEELER FWC	795.4	17	-24.6	NM	NM	1.2	NM	NM	NM	-50	NA	77	
JACOBS ENGINEERING GROUP JEC (3)	1146.6	14	26.9	25	2.3	2.1	13.4	16.1	22	16	13	2176	
URS URS (2)	543.0	5	13.3	41	2.4	1.8	5.1	15.5	12	43	30	579	
(B) INDUSTRIAL DISTRIBUTION													
GROUP COMPOSITE	12078.8	-19	231.3	-27	1.9	2.1	2.0	3.6	75	7	-1	24894	
APPLIED INDUSTRIAL TECHNOLOGIES AIT (6)	361.5	-12	2.7	-61	0.7	1.7	4.2	5.8	24	11	1	401	
ARROW ELECTRONICS ARW	1952.2	-40	2.8	-96	0.1	2.2	-3.4	-8.0	NM	7	NA	2573	
AVNET AVT (6)	2214.5	-36	-1.3	NM	NM	1.9	-7.6	-14.3	NM	9	-68	2912	
BELL MICROPRODUCTS BELM	522.9	-2	0.4	205	0.1	0.0	-7.0	-15.3	NM	14	NA	211	
CELLSTAR CLST (1)	629.2	-2	0.5	-89	0.1	0.7	-1.2	-1.3	NM	11	-58	51	
FISHER SCIENTIFIC INTERNATIONAL FSH	775.5	13	19.8	NM	2.6	NM	6.1	131.9	29	NA	0	1690	
GENUINE PARTS GPC	1977.7	-4	87.0	-3	4.4	4.3	10.6	14.7	20	6	1	6028	
GRAINGER (W.W.) GWV	1125.3	-8	58.5	39	5.2	3.5	11.1	11.9	27	3	3	5131	
PATTERSON DENTAL PDCO (8)	357.4	23	24.8	22	6.9	7.0	18.5	18.5	36	27	22	3164	
RELIANCE STEEL & ALUMINUM RS	405.5	-6	7.5	-41	1.8	2.9	3.4	5.3	32	20	5	1029	
UNITED STATIONERS USTR	948.1	-11	24.2	12	2.5	2.0	7.6	10.5	23	42	34	1377	
WESCO INTERNATIONAL WCC	808.9	-13	4.5	29	0.6	0.4	3.6	14.7	16	-7	-5	327	
(C) POLLUTION CONTROL													
GROUP COMPOSITE	1867.6	-1	106.0	161	5.7	2.1	1.3	8.2	29	53	3	5604	
ALLIED WASTE INDUSTRIES AW	1315.7	-3	51.1	NM	3.9	NM	0.5	10.5	37	12	NA	2296	
REPUBLIC SERVICES RSG	551.9	3	54.9	11	9.9	9.3	4.2	7.4	26	11	3	3308	
(D) PRINTING & ADVERTISING													
GROUP COMPOSITE	4853.4	-7	236.8	155	4.9	1.8	2.5	4.8	NM	9	43	33819	
ADVO AD (3)	274.4	1	8.4	-9	3.1	3.4	27.1	501.6	19	NA	37	889	
BANTA BN	332.8	-11	10.5	298	3.2	0.7	10.7	14.2	17	-2	4	962	
DONNELLEY (R.R.) DNY	1093.7	-16	22.7	56	2.1	1.1	1.9	3.7	NM	-11	-31	3603	
INTERPUBLIC GROUP IPG	1420.1	-15	66.7	NM	4.7	NM	-9.0	-20.7	NM	19	NA	11802	
OMNICOM GROUP OMC	1732.4	8	128.6	35	7.4	6.0	14.6	24.6	31	22	21	16563	
(E) OTHER SERVICES													
GROUP COMPOSITE	30767.7	2	936.6	14	3.0	2.7	3.9	6.2	45	25	14	109057	
ABM INDUSTRIES ABM (2)	476.0**	1	8.0	-5	1.7	1.8	8.6	8.6	30	17	8	942	
ACCENTURE ACN (4)	2913.3	1	10.6	NA	0.4	NA	-56.2	NM	NA	NA	NA	19716	
ADMINISTAFF ASF	1149.3	10	-5.7	NM	NM	NM	7.3	7.3	47	43	27	399	
ASBURY AUTOMOTIVE GROUP ABG	1068.6	8	5.1	-39	0.5	0.8	NA	NA	NA	NA	NA	658	
AUTONATION AN	4750.7	-3	91.7	53	1.9	1.2	6.2	7.1	19	17	10	5149	
CARMAX GROUP KMX (10)	779.2	22	18.4	136	2.4	1.2	18.7	19.4	39	NA	NA	1151	
CASEY'S GENERAL STORES CASY (8)	454.2*	4	2.3	-43	0.5	0.9	5.3	7.9	23	11	9	674	
COI CDI	313.1	-21	-2.9	NM	NM	0.8	-7.2	-7.2	NM	13	NA	573	
CENOANT CD	2713.0	83	342.0	23	12.6	18.6	3.3	6.4	38	22	28	18068	
CINTAS CTAS (7)	545.5	2	55.6	1	10.2	10.2	14.9	17.0	39	25	20	8892	
CONVERGYS CVG	587.5	-1	59.6	0	10.1	10.1	11.6	11.7	33	19	13	4574	
GROUP 1 AUTOMOTIVE GPI	946.1	2	15.5	66	1.6	1.0	12.2	14.9	17	43	54	1082	
HANOLEMAN HDL (8)	389.9	12	7.2	-56	1.8	4.7	8.4	12.5	10	-4	158	343	
IMS HEALTH RX	331.4	1	59.2	-10	17.9	20.0	25.7	60.4	47	-32	-9	5969	
KELLY SERVICES KELYA	1000.0	-8	0.8	-83	0.1	0.4	2.1	2.1	83	4	-17	1039	
KPMG CONSULTING KCIN (6)	582.3	-22	23.7	-20	4.1	3.9	13.3	12.4	35	NA	NA	2560	
LITHIA MOTORS LAD	524.4	25	6.4	124	1.2	0.7	6.5	12.8	17	55	20	384	
MANPOWER MAN	2284.0	-14	6.9	-74	0.3	1.0	6.6	13.3	29	6	1	3019	
MPS GROUP MPS	296.5	-33	1.9	-70	0.7	1.4	0.5	0.5	NM	15	-17	885	
PANTRY PTRY (3)	560.8*	-12	-4.1	NM	NM	NM	-0.5	-3.0	NM	38	NA	76	
PAYCHEX PAYX (7)	525.6	12	67.0	1	12.7	14.2	30.9	30.9	51	32	35	13699	
QUINTILES TRANSNATIONAL QTRN	393.4	-3	17.3	122	4.4	1.9	11.3	-11.4	NM	58	NA	1740	
REGIS RGIS (6)	361.6	9	19.3	54	5.3	3.8	9.8	17.0	20	25	27	1292	
RENT-A-CENTER RC	498.6	13	43.6	74	8.7	5.7	4.9	16.4	27	27	32	1559	
ROBERT HALF INTERNATIONAL RH	468.5	-35	9.1	-81	1.9	6.6	10.2	10.3	57	20	18	4613	
SERVICEMASTER SVM	747.3	2	29.1	64	3.9	2.4	-7.0	-13.4	NM	21	NA	4253	
SONIC AUTOMOTIVE SAH	1605.6	10	22.5	53	1.4	1.0	8.6	17.1	18	82	61	1491	
SPHERION SFN	539.3	-37	-3.7	NM	NM	NM	8.4	18.8	6	29	16	645	
UNITED AUTO GROUP UAG	1633.1	19	15.7	139	1.0	0.5	4.2	6.8	19	14	21	548	
UNITED RENTALS UR	599.0	-3	7.6	122	1.3	0.6	3.0	7.8	19	72	45	1890	
US ONCOLOGY USON	391.4	6	13.7	74	3.5	2.1	6.4	7.7	17	29	2	833	
VOLT INFORMATION SCIENCES VOL (2)	338.8	-33	-6.7	NM	NM	NM	0.6	0.6	NM	15	-17	341	

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN			5-YEAR GROWTH		MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL.	12 MONTHS EARNINGS PER SHARE
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %		
2 TELECOMMUNICATIONS													
INDUSTRY COMPOSITE	80350.0	-8	906.0	-1	1.1	1.0	-4.8	-9.4	NM	34	6	459126	-0.96
A) EQUIPMENT & SERVICES													
GROUP COMPOSITE	41179.7	-12	-1439.3	NM	NM	NM	-9.8	-18.8	NM	31	22	153923	-1.73
3C TELECOMMUNICATIONS ADCT (2)	293.5	-64	44.8	NM	NM	NM	-71.8	-72.5	NM	33	NA	2802	1.68
AFRICAN TOWER AMT	270.3	3	70.7	NM	NM	NM	-7.0	-15.7	NM	152	NA	937	-2.32
3GT	12023.0	11	160.0	NM	NM	NM	-6.4	-12.3	NM	34	NA	48752	1.21
3GT WIRELESS SERVICES AWE	3611.0	12	16.0	NM	NM	1.7	0.3	0.5	NM	NA	NA	18806	0.03
3NTURYTEL CTL	422.9	3	42.9	60	10.1	6.5	7.5	14.5	12	18	13	3993	2.39
3MVERSE TECHNOLOGY CMVT (11)	265.1	-24	-54.0	NM	NM	22.2	2.4	3.4	40	56	44	2146	0.29
3RNING GLW	898.0**	-53	-90.0	NM	NM	6.9	-58.1	NM	NM	56	NA	6184	-6.13
3T (5)	374.0	30	-17.2	NM	NM	NM	-23.7	-26.4	NM	118	NA	1491	3.56
3VEL 3 COMMUNICATIONS LVLTL	386.0	-14	-220.0	NM	NM	NM	-86.8	NM	NM	NA	NA	1508	13.73
3CENT TECHNOLOGIES LU (3)	3516.0	-40	595.0	NM	NM	NM	-61.2	NM	NM	50	NA	15418	3.37
3CI GROUP MCIT	3042.0	-16	-54.0	NM	NM	1.7	-1.8	-6.6	NM	NA	NA	382	-1.19
3EXTEL COMMUNICATIONS NXTL	2155.0	24	591.0	NM	NM	NM	20.0	NM	NM	NA	NA	4227	-4.53
3IENTIFIC-ATLANTA SFA (6)	452.7	-32	43.8	-43	9.7	11.5	13.4	13.5	17	28	87	3155	1.20
3PRINT FON GROUP FON	4029.0	-8	286.0	-9	7.1	7.3	-1.0	-1.4	NM	NA	NA	14733	-0.19
3PRINT PCS GROUP PCS	2848.0	41	-146.0	NM	NM	NM	-5.3	NM	NM	NA	NA	11393	-1.02
3LEPHONE & DATA SYSTEMS TDS	665.2	11	13.6	-56	2.0	5.2	-3.3	-5.6	NM	15	NA	4973	-3.16
3LLABS TLAB	371.5	-52	5.3	-96	1.4	15.9	-12.0	-12.0	NM	36	NA	3549	0.72
3S. CELLULAR USM	478.4	9	43.9	29	9.2	7.7	6.8	8.2	18	10	13	3464	2.18
3ORLOCOM GROUP WCOM	5078.0	-2	184.0	-65	3.6	10.2	1.3	1.9	6	NA	NA	6010	0.36
B) TELEPHONE COMPANIES													
GROUP COMPOSITE	39170.3	-4	2345.3	-52	6.0	11.9	1.8	3.7	66	37	5	305203	0.45
3TEL AT	1832.9	0	213.8	-43	11.7	20.6	9.4	15.9	17	25	21	15259	2.83
3LLSOUTH BLS	5534.0	7	1155.0	30	20.9	15.1	8.5	14.8	21	6	2	58562	1.50
3ROADWING BRW	537.4	-4	-33.5	NM	NM	NM	-6.1	-19.1	NM	36	NA	1404	-1.33
3WEST COMMUNICATIONS INTL. Q	4369.0	-14	-704.0	NM	NM	0.4	-8.2	-13.0	NM	355	NA	8467	2.81
3C COMMUNICATIONS SBC †	10522.0	-6	1710.0	-8	16.3	16.7	14.3	21.9	15	41	13	108777	2.10
3RIZON COMMUNICATIONS VZ	16375.0	1	4.0	NM	0.0	10.8	-1.2	-3.7	NM	35	-20	112734	-0.44
3 TRANSPORTATION													
INDUSTRY COMPOSITE	50184.0	-9	-873.3	NM	NM	0.7	-2.2	-5.2	NM	8	6	171905	-0.77
A) AIRLINES													
GROUP COMPOSITE	18954.0	-18	-2201.2	NM	NM	NM	-14.9	-63.4	NM	8	21	26302	-6.52
3ASKA AIR GROUP ALK	496.9	-4	-34.4	NM	NM	NM	-2.5	-5.1	NM	24	NA	811	-1.54
3ERICA WEST HOLOINGS AWA	460.3	-22	-86.0	NM	NM	NM	-21.6	NM	NM	3	NA	128	-6.56
3MR AMR	4136.0	-13	-575.0	NM	NM	NM	-15.2	-47.0	NM	1	NA	3256	14.85
3TRAN AMTR	330.6	-5	1.9	NM	0.6	NM	-13.3	NM	NM	5	NA	159	-6.60
3ONTINENTAL AIRLINES CAL	1993.0	-19	-166.0	NM	NM	0.4	-4.3	-26.6	NM	14	NA	1591	-4.49
3LTA AIR LINES DAL	3103.0	19	397.0	NM	NM	NM	-12.1	-39.7	NM	11	NA	3376	-12.12
3RTHWEST AIRLINES NWAC	2180.0	17	-171.0	NM	NM	NM	-7.7	NM	NM	NA	NA	1565	-4.99
3OUTHWEST AIRLINES LUV	1257.2	12	21.4	-82	1.7	8.5	7.1	10.0	36	20	21	14368	0.52
3AL UAL	3288.0	-26	509.0	NM	NM	NM	-21.0	-91.4	NM	23	NA	700	-43.20
3S AIRWAYS GROUP U	1709.0	24	286.0	NM	NM	NM	NM	NM	NM	NA	NA	348	33.07
B) RAILROADS													
GROUP COMPOSITE	8592.0	-2	548.0	36	6.4	4.6	4.2	8.4	17	4	-5	41594	2.01
3URLINGTON NORTHERN SANTA FE BN†	2163.0	-6	172.0	23	8.0	6.1	5.3	9.7	14	5	2	10840	2.00
3X LSX	1964.0	3	68.0	240	3.5	1.0	2.7	5.6	23	3	-29	7857	1.61
3ORFOLK SOUTHERN NSC	1498.0	-3	86.0	41	5.7	4.0	2.9	6.2	21	4	-23	8280	1.00
3ION PACIFIC UNP	2967.0	1	222.0	23	7.5	6.2	5.2	10.5	15	3	8	14617	3.91
C) TRANSPORTATION SERVICES													
GROUP COMPOSITE	10351.1	-3	212.6	108	2.1	1.0	1.6	2.7	86	13	9	26663	0.45
3RBORNE ABF	788.5	-4	5.3	NM	0.7	NM	0.2	0.3	NM	13	NA	1028	0.07
3F UNF	1067.1	17	20.3	30	1.9	1.2	-32.9	-61.4	NM	10	NA	1611	-8.98
3OEX FDX (7)	5019.0	4	120.0	11	2.4	2.2	7.4	9.5	26	18	11	15410	1.98
3ATX GMT	302.8	-15	18.9	330	6.2	1.2	0.5	2.5	72	4	-39	1572	0.45
3TTSTON PZB	899.5	-1	19.1	120	2.1	1.0	7.3	11.7	26	NA	-32	1504	1.07
3BINSON (C.H.) WORLOWIDE CHRW .	740.0	1	20.8	15	2.8	2.5	23.3	23.3	33	22	34	2750	1.00
3OER SYSTEM R	1149.9	10	16.8	308	1.5	0.3	1.3	2.5	57	3	-34	1767	0.51
3INITY INDUSTRIES TRN	384.3	-8	8.6	NM	NM	NM	-2.9	-4.3	NM	3	NA	1021	-0.95
D) TRUCKING & SHIPPING													
GROUP COMPOSITE	12286.9	-1	567.3	-10	4.6	5.0	11.0	16.7	31	15	20	77346	1.65
3KANSAS BEST ABFS	320.2	-20	1.5	-84	0.5	2.3	7.4	9.6	18	21	29	593	1.32
3NSOLIOATED FREIGHTWAYS CFWY	463.0	19	36.5	NM	NM	NM	-91.3	NM	NM	-5	NA	72	-6.29
3UNT (J.B.) TRANSPORT SERVICES JBHT	510.2	3	4.9	195	1.0	0.3	4.5	7.9	27	6	17	965	0.99
3ON MOUNTAIN IRM	313.2	10	13.3	316	4.2	1.1	-0.9	-2.5	NM	78	NA	2686	-0.27
3NOSTAR SYSTEM LSTR	335.7	1	8.5	2	2.5	2.5	20.5	36.6	20	-6	31	818	5.07

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		RETURN					5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 5-2 \$ MIL.	M EA
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	MARGINS		ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-2	COMMON EQUITY %	EARNINGS PER SHARE %			
					1ST QUARTER 2002 %	1ST QUARTER 2001 %								
ROADWAY ROAD	637.2	-2	-1.7	NM	NM	0.8	3.6	6.7	25	10	13	614		
SWIFT TRANSPORTATION SWFT	475.8	-7	9.4	NM	2.0	0.1	3.8	4.9	47	24	-3	1708		
UNITED PARCEL SERVICE UPS	7579.0	2	563.0	-3	7.4	7.8	16.2	23.5	28	14	20	67152		
USFREIGHTWAYS USFC	577.7	-7	-7.7	NM	NM	1.4	2.4	3.2	42	20	6	935		
WERNER ENTERPRISES WERN	312.6	3	10.6	12	3.4	3.1	8.0	8.1	23	11	3	1114		
YELLOW YELL	762.3	-8	2.1	23	0.3	0.2	2.6	3.7	44	4	-14	689		
24 UTILITIES & ENERGY SERVICES														
INDUSTRY COMPOSITE	170942.0	-22	6869.0	23	4.0	2.5	4.8	12.7	13	9	4	397948		
(A) ELECTRIC, WATER & COGENERATION														
GROUP COMPOSITE	133799.5	-18	5158.6	24	3.9	2.5	4.9	13.2	12	8	4	322865	2	
AES AES	2719.0	9	192.0	57	7.1	4.9	2.0	12.6	9	50	20	4531		
ALLEGHENY ENERGY AYE	2268.2	34	91.0	1	4.0	5.3	7.2	16.1	12	0	14	5201		
ALLETE ALE	356.4	-2	33.4	9	9.4	8.4	6.0	11.0	19	13	10	2603		
ALLIANT ENERGY LNT	636.2	-25	11.4	-52	1.8	2.8	3.8	9.0	13	32	10	2494		
AMEREN AEE	1115.0	9	62.0	-9	5.6	6.6	7.3	14.0	12	6	4	5784		
AMERICAN ELECTRIC POWER AEP	13500.0	-5	181.4	-32	1.3	1.9	4.7	11.2	16	14	-10	14739		
AMERICAN WATER WORKS AWK	384.7	22	15.2	-35	4.0	7.4	3.5	8.7	29	12	4	4370		
AQUILA ILA	8861.3	-26	44.4	-40	0.5	0.6	5.3	9.8	8	NA	11	1970		
AVISTA AVA	750.0	-63	15.5	-52	2.1	1.6	2.1	6.0	18	-1	-10	739		
BLACK HILLS BKH	301.9	-47	14.1	-56	4.7	5.7	7.3	13.6	13	18	20	953		
CALPINE CPN	1736.9	30	-76.4	NM	NM	8.9	2.8	14.8	8	84	70	3147		
CINERGY CIN	2203.8	-41	96.6	-20	4.4	3.3	5.9	13.1	14	3	6	6014		
CMS ENERGY CMS	2536.0	-11	400.0	270	15.8	3.8	-0.4	-2.1	NM	3	NA	2734	-0	
CONNECTIV CIV	1051.8	-32	28.1	-45	2.7	3.3	12.6	28.1	6	5	14	2204	-4	
CONSOLIDATED EOISON ED	2099.1	-27	170.0	-7	8.1	6.3	5.8	11.8	14	-1	1	9332		
CONSTELLATION ENERGY GROUP CEG	1045.9	-7	231.9	118	22.2	9.4	3.1	5.4	26	5	-14	5284		
DOMINION RESOURCES D	2634.0	-18	322.0	99	12.2	5.1	3.2	8.4	25	11	-4	17550	2	
DTE ENERGY DTE	2400.0	30	200.4	48	8.4	7.3	3.2	8.6	19	5	1	7407	2	
DUKE ENERGY DUK	11885.0	-28	382.0	-31	3.2	3.4	6.3	14.3	16	18	11	31170	2	
EOISON INTERNATIONAL EIX	2587.0	18	90.0	NM	3.5	NM	17.6	94.8	2	-15	33	5946	2	
ENERGY EAST EAS	1028.6	-19	105.6	-9	10.3	9.1	3.8	10.0	14	-1	10	2569		
ENTERGY ETR	1860.8	-30	-73.0	NM	NM	6.1	3.0	6.3	22	2	18	10308		
EXELON EXC	3870.0	1	238.0	-39	6.2	10.1	5.8	15.4	14	16	18	17575		
FIRSTENERGY FE	2802.2	41	108.9	-12	3.9	6.2	3.2	8.6	13	18	8	9840		
FPL GROUP FPL	1843.0	-5	-52.0	NM	NM	5.9	5.5	10.2	17	5	6	11079		
GREAT PLAINS ENERGY GXP	364.6	30	-2.9	NM	NM	NM	-2.4	-5.3	NM	-2	NA	1454	-0	
HAWAIIAN ELECTRIC INDUSTRIES HE	377.4	-13	27.4	-3	7.3	6.5	3.5	11.5	15	3	-3	1687	1	
IOACORP IDA	653.0	-42	26.0	-29	4.0	3.2	6.3	13.1	12	5	11	1410	1	
MIRANT MIR	7037.0	-14	-44.0	NM	NM	2.1	2.9	6.3	11	28	NA	4513	1	
NISOURCE NI	2206.4	-42	243.8	36	11.1	4.7	2.8	7.8	17	29	-8	4698	1	
NORTHEAST UTILITIES NU	1910.7	6	20.0	-85	1.0	7.6	2.3	7.1	18	-1	181	2561	1	
NORTHWESTERN NOR	480.1	1	17.7	54	3.7	2.4	2.4	9.7	13	20	6	552	1	
NRG ENERGY NRG †	658.8	6	-26.5	NM	NM	5.6	2.0	9.1	12	58	NA	2537	1	
NSTAR NST	849.4	-2	34.8	NM	4.1	NM	5.2	13.1	15	6	NA	2447	1	
OGE ENERGY OGE	595.1	-44	-6.2	NM	NM	NM	4.3	10.5	17	2	-2	1849	1	
PG&E PCG	4767.0	29	631.0	NM	13.2	NM	19.3	54.5	3	-17	-10	8594	1	
PINNACLE WEST CAPITAL PNW	621.0	-34	53.8	-14	8.7	6.6	6.2	12.8	12	5	10	3694	3	
PNM RESOURCES PNM	314.0	-57	24.9	-61	7.9	8.6	5.5	10.8	10	6	14	1127	2	
POTOMAC ELECTRIC POWER POM	499.2	-11	24.6	-62	4.9	11.6	3.3	6.7	20	0	4	2422	1	
PPL PPL	1275.0	-19	164.0	-28	12.9	14.6	1.2	5.2	58	-8	-2	5511	0	
PROGRESS ENERGY PGN	1888.3	-1	132.5	-14	7.0	8.1	3.2	8.6	21	19	1	11396	2	
PUBLIC SERVICE ENTERPRISE GROUP PEG	2515.0	-11	180.0	-29	7.2	9.0	4.5	16.7	14	-6	10	9469	3	
PUGET ENERGY PSD	757.3	-32	26.5	-70	3.5	7.8	1.4	3.9	34	3	0	1780	0	
RELIANT ENERGY REI	8727.0	-34	225.4	12	2.6	1.5	6.5	13.6	8	10	17	7816	3	
RELIANT RESOURCES RRI	7113.3	-28	96.9	23	1.4	0.8	8.2	9.4	8	NA	NA	4479	1	
RGS ENERGY GROUP RGS	379.1	-25	25.0	-46	6.6	9.1	2.9	6.1	29	-1	-1	1376	1	
SCANA SCG	822.0	-38	-70.0	NM	NM	6.1	7.8	17.6	9	6	14	3345	3	
SOUTHERN SO	2214.0	-2	228.0	23	10.3	8.1	6.2	14.6	17	-1	1	19761	1	
TECO ENERGY TE	740.3	10	75.4	8	10.2	10.4	7.7	15.7	12	7	6	3891	2	
TXU TXU	8097.0	-3	276.0	35	3.4	2.4	3.5	11.5	16	5	1	14394	3	
WESTERN RESOURCES WR	502.2	-10	-186.4	NM	NM	NM	-13.4	-12.7	NA	1	NA	1233		
WISCONSIN ENERGY WEC	986.0	-27	-4.2	NM	NM	5.7	2.3	6.2	25	2	6	3027	1	
WPS RESOURCES WPS	671.3	-33	28.9	18	4.3	2.4	5.3	11.5	15	8	6	1315	2	
XCEL ENERGY XEL	3301.1	-22	103.5	-51	3.1	5.0	3.4	10.9	13	25	2	8984	1	
(B) GAS, OIL & ENERGY SERVICES														
GROUP COMPOSITE	37142.5	-34	1710.3	21	4.6	2.5	4.0	10.1	18	19	8	75083	1	
AGL RESOURCES ATG (3)	492.9	41	54.6	1	11.1	15.4	5.2	12.9	15	2	2	1333	1	
OYNEGY DYN	8907.0	-37	116.0	-15	1.3	1.0	5.3	13.0	9	40	30	5357	1	
EL PASO EP	13188.0	-26	229.0	NM	1.7	NM	2.6	7.3	23	36	-17	19818		

L.L.BEAN IS PLAYING TO WIN.

All numbers reported are from industry and customer sources. IBM, the e-business logo, eServer and e-business is the game. Play to win are either



e-business is the game. Play to win.

Winning in retail: L.L.Bean is famous for its devoutly loyal customers. And keeping customers loyal means responding quickly to order inquiries. Where's that new fly rod? When you order from L.L.Bean today, you'll know almost instantly. L.L.Bean's online e-mail response time is now 600% faster. How? An integrated e-business infrastructure solution built on IBM **@server**® running Linux.® Winning in e-business is about speed. Get in the game at **ibm.com/e-business**

CORPORATE SCOREBOARD

COMPANY SYMBOL	SALES		PROFITS		MARGINS		RETURN		5-YEAR GROWTH			MARKET VALUE SHARES OUTSTANDING 5-3 \$ MIL.	MON. EARN. P. SH.
	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 \$ MIL.	CHANGE FROM 2001 %	1ST QUARTER 2002 %	1ST QUARTER 2001 %	ON INVESTED CAPITAL %	ON COMMON EQUITY %	P-E 5-3	COMMON EQUITY %	EARNINGS PER SHARE %		
EQUITABLE RESOURCES EQT	344.1	-60	52.4	-27	15.2	8.4	10.7	15.7	18	0	19	2379	2
KEYSPAN KSE	1871.6	-27	214.6	-4	11.5	8.7	2.9	7.5	22	29	-6	4997	1
KINDER MORGAN KMI †	291.4	-10	88.4	56	30.3	17.5	4.7	12.0	22	37	7	5901	2
LACLEDE GROUP LG (3)	287.5	-35	20.8	0	7.2	4.7	3.4	6.5	24	4	-5	463	1
MDU RESOURCES GROUP MDU	381.9	-40	23.7	-28	6.2	5.1	7.7	13.2	14	27	18	2026	2
NATIONAL FUEL GAS NFG (3)	482.9	-44	61.9	-18	12.8	8.7	1.4	3.1	59	3	-3	1871	0
NEW JERSEY RESOURCES NJR (3)	525.8	-41	34.9	6	6.6	3.7	7.2	15.5	16	5	8	866	2
NICOR GAS	617.0	-58	39.9	3	6.5	2.6	12.1	19.6	15	0	-4	2079	3
NORTHWEST NATURAL GAS NWN	278.6	28	34.4	33	12.4	11.9	6.4	12.0	13	6	1	738	2
NUI NUI (3)	278.0	-34	16.7	-9	6.0	4.4	4.2	8.9	15	9	5	381	1
ONEOK OKE	1465.7	-50	72.6	8	5.0	2.3	2.5	5.7	23	27	7	1366	1
PEOPLES ENERGY PGL (3)	522.8	-51	55.0	-12	10.5	5.8	5.8	10.1	16	3	-2	1388	2
PIEDMONT NATURAL GAS PNY (2)	288.8	-38	41.2	-18	14.3	10.8	5.1	9.5	22	8	4	1234	1
QUESTAR STR	402.5	-28	50.2	-28	12.5	12.3	6.8	13.3	16	6	12	2244	1
SEMPRA ENERGY SRE	1525.0	-53	148.0	-18	9.7	5.6	7.3	18.1	11	16	11	5312	2
SOUTHERN UNION SUG (6)	528.3	-42	43.8	7	8.3	4.5	2.8	6.7	22	27	-1	919	0
SOUTHWEST GAS SWX	499.5	2	42.9	27	8.6	6.9	3.2	7.7	17	9	31	809	1
UGI UGI (3)	764.0	-19	54.4	19	7.1	4.9	3.3	21.1	16	-10	8	885	2
VECTREN VVC	635.2	-28	45.7	12	7.2	4.6	3.9	8.6	23	26	0	1693	1
WGL HOLDINGS WGL (3)	379.4	-37	46.1	-26	12.1	10.3	3.2	5.5	28	7	-1	1298	0
WILLIAMS WMB	2184.8	-29	123.2	-66	5.6	12.0	3.1	8.4	19	15	13	9726	1

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

A	American Water Works 24a	Bank of New York 3a	Burlington Resources 11a	Community Health Sys. 12c	Dollar General 8	Federated Dept. Stores 8
A&P 10c	AmeriCredit 17a	Bank One 3b	C	Compaq Computer 18b	Dollar Tree Stores 8	FedEx 23c
Abbott Laboratories 12b	Amerigroup 12c	Banknorth Group 3a	Cablevision Systems 20a	CompuCom Systems 18a	Dominion Resources 24a	FelCor Lodging 13b
Abercrombie & Fitch 8	AmerisourceBergen 12a	Banta 21d	Cabot 4	Converse Tech. 22a	Donaldson 15c	Ferro 4
ABM Industries 21e	Ametek 9a	Bard (C.R.) 12d	Cadence Design Systems 18c	ConAgra Foods 10b	Donnelley (R.R.) 21d	Fidelity National Finl. 17a
Accenture 21e	Amgen 12b	Barnes & Noble 8	Calpine 24a	Concord EFS 17a	Dover 15c	Fifth Third Bancorp 3b
ACE 17b	AMR 23a	Bausch & Lomb 12d	Campbell Soup 10b	Connectiv 24a	Dow Chemical 4	Finlay Enterprises 8
Acuity Brands 9a	AmSouth Bancorporation 3c	Baxter International 12d	Capital One Financial 17a	Conoco 11a	Dow Jones 20b	First American 17a
ADC Telecomm. 22a	Amtran 23a	BB&T 3c	Cardinal Health 12a	Conseco 17b	Dreyer's Grand Ice Cream 10b	First Data 18c
Administaff 21e	Anadarko Petroleum 11a	Bear Stearns 17a	Caremark Rx 12c	Consol Energy 11a	DST Systems 18c	First Tennessee Natl. 3c
Adobe Systems 18c	Analog Devices 9d	Beazer Homes USA 13b	Carlisle 15a	Consolidated Edison 24a	DTE Energy 24a	FirstEnergy 24a
Advanced Micro 9d	Anheuser-Busch 6c	Beckman Coulter 9c	CarMax Group 21e	Cons. Freightways 23d	Duane Reade 12a	Fiserv 18c
ADVO 21d	Anixter International 5	Becton, Dickinson 12d	Carnival 14d	Constellation Brands 6c	Duke Energy 24a	Fisher Scientific 21b
AES 24a	AnnTaylor Stores 8	Bed Bath & Beyond 6b	Casey's General Stores 21e	Constellation Energy 24a	Dun & Bradstreet 17a	FleetBoston Financial 3a
Aetna 12c	Anthem 12c	Bell Microproducts 21b	Caterpillar 15c	Continental Airlines 23a	DuPont 4	Fleetwood Entls. 14d
Affiliated Computer Svcs. 18c	AOL Time Warner 14b	BellSouth 22b	CBRL Group 14a	Convergys 21e	Dura Automotive Systems 2b	Flowserve 15c
AFLAC 17b	Aon 17b	Belo 20b	CDI 21e	Cooper Cameron 11b	Dynegy 24b	Fluor 21a
AGCO 15c	Apac 11a	Bemis 7b	CDW Computer Centers 8	Cooper Industries 9a	E	FMC 4
Agere Systems 9d	Apogent Technologies 9c	Benchmark Electronics 9d	CellStar 21b	Cooper Tire & Rubber 2c	E*Trade Group 17a	FMC Technologies 11b
Agilent Technologies 9c	Apple Computer 18b	Berkley (W.R.) 17b	Cendant 21e	Coors (Adolph) 6c	EarthLink 18c	Foot Locker 8
AGL Resources 24b	Applied Biosystems 9c	Best Buy 6b	Centex 13b	Corn Products Intl. 10b	Eastman Chemical 4	Footstar 8
Air Products & Chemicals 4	Applied Industrial Tech. 21b	Bethlehem Steel 16a	CenturyTel 22a	Corning 22a	Eastman Kodak 14d	Ford Motor 2a
Airborne 23c	Applied Materials 15c	Beverly Enterprises 12c	Ceridian 18c	Costco Wholesale 8	Eaton 2b	Forest Laboratories 12b
AK Steel Holding 16a	Apria Healthcare Group 12c	Biogen 12b	Charmington 18c	Countrywide Credit 17a	EchoStar Communications 20a	Fortune Brands 15a
Alaska Air Group 23a	Aquila 24a	Biomet 12d	Charter Communications 20a	Coventry Health Care 12c	Ecolab 6d	Foster Wheeler 21a
Alberto-Culver 8	Arch Coal 11a	BJ Services 11b	Charter One Financial 17c	Cox Communications 20a	Edison International 24a	FPL Group 24a
Albertson's 10c	Archer Daniels 10b	BJ's Wholesale Club 8	ChevronTexaco 11a	Crane 15c	Edwards (A.G.) 17a	Franklin Resources 17a
Alcoa 16b	Arrow Electronics 21b	Black & Decker 15b	Cigna 17b	Crown Cork & Seal 7a	El Paso 24b	Fred's 8
Allegheny Energy 24a	ArvinMeritor 2b	Black Hills 24a	Cincinnati Financial 17b	CSK Auto 8	Electronic Data Systems 18c	Freeport-McMoRan C&G 16d
Allegheny Tech. 16a	Asbury Automotive 21e	Blockbuster 14b	CINergy 24a	CSX 23b	Electronics Boutique 8	Fresh Del Monte 10b
Allergan 12b	Ashland 11a	Blyth 15a	Cintas 21e	Cummins 15c	EMC 18b	Frontier Oil 11a
Allele 24a	Astoria Financial 17c	Boeing 1	Circuit City Group 6b	Cytec Industries 4	Emerson Electric 9a	Fuller (H.B.) 4
Alliant Energy 24a	AT&T 22a	Boise Cascade 19b	Cisco Systems 18c	D	Engerizer Holdings 15a	Furniture Brands 6b
Allied Waste Inds. 21c	AT&T Wireless 22a	Borders Group 8	Citigroup 17a	D&K Healthcare Resources 12a	Energy East 24a	G
Allstate 17b	Atmel 9d	BorgWarner 2b	CKE Restaurants 14a	Dana 2b	Engelhard 16b	GameStop 18c
Altel 22b	Autoliv 2b	Boston Properties 13b	Claire's Stores 8	Danaher 9c	Entergy 24a	Gannett 20b
Alpha 12b	Automatic Data 18c	Boston Scientific 12d	Clayton Homes 13b	Darden Restaurants 14a	Equitable Resources 24b	Gap 8
Amazon.com 8	AutoNation 21e	Bowater 19b	Clorex 6d	Deere 15c	Equity Office Properties 13b	Gart Sports 8
Amerada Hess 11a	AutoZone 8	Boyd Gaming 14b	CMS Energy 24a	Dell Computer 18b	Equity Residential 13b	Gateway 18b
Ameren 24a	Avaya 9b	Briggs & Stratton 15c	CNF 23c	Delphi 2b	Estee Lauder 6d	GATX 23c
America West Holdings 23a	Avista 24a	Brinker International 14a	Coca-Cola 6c	Delta Air Lines 23a	Everest Re Group 17b	Genentech 12b
American Axle & Mfg. 2b	Avnet 21b	Bristol-Myers Squibb 12b	Coca-Cola Bottling 6c	Exelon 24a	Express Scripts 12c	General Cable 16b
American Eagle Outfitters 8	Avon Products 6d	Broadwing 22b	Coca-Cola Enterprises 6c	Exxon Mobil 11a	Fairchild Semiconductor 9d	General Dynamics 1
American Electric 24a	AVX 9d	Brown Shoe 6a	Cole National 8	F	Family Dollar Stores 8	General Electric 5
American Express 17a	B	Brown-Forman 6c	Colgate-Palmolive 6d	Diebold 18a	Fannie Mae 17a	General Mills 10b
American Financial Group 17b	Baker Hughes 11b	Brunswick 14d	Comcast 20a	Dillard's 8	Federal-Mogul 2b	General Motors 2a
American Greetings 14d	Ball 7a	Bunge 10b	Comerica 3b	Disney (Walt) 20a		Genesis Health 12c
American Intl. Group 17b	Bank of America 3c	Burlington Coat Factory 8	Commerce Group 17b	Dole Food 10b		Genuine Parts 21b
American National 17b		Burlington Northern Santa Fe 23b	Commercial Metals 16a			Genuity 18c
American Standard 13a						Georgia-Pacific 19a
American Tower 22a						

WHAT POWERS YOUR BUSINESS?

80 years of continuous training has helped make our tools the choice of professionals. Now, e-learning complements our classroom learning by making training more immediate for distant employees, distributors, and service agents.

ACHIEVING RESULTS FASTER:

- 10** days for LMS implementation.
- 40** hours of mandated yearly employee training, tracked and integrated with HR performance data.
- 1** Learning Management System bringing it all together.

TODAY:

2,000 employees throughout North America are accelerating learning with the THINQ LMS. Tomorrow, thousands of customers, distributors and authorized repair stations will join them.

What if you could be ready for change? What if you could achieve results—faster? What if you could reduce your organizational risk through learning?

You can, with THINQ. THINQ's learning management software powers the learning that powers the business of more large organizations than any other.

Visit <http://ThoughtLeaders.THINQ.com> to find out how Katrina and her team stay ready for change, achieve results faster, and reduce risks.

THINQ

LEARNING THAT POWERS BUSINESS

1.800.869.9461, press 3

"Training is part of our mission statement. It makes the mission possible."

Katrina Schwegel
Organizational Development Manager



Milwaukee Electric Tool Corporation

ALPHABETICAL LIST OF COMPANIES

The number following each company name identifies the Scoreboard category under which it is listed

Gillette 6d
Golden State Bancorp 17c
Golden West 17c
Goldman Sachs Group 17a
Goodrich 1
Goodyear Tire & Rubber 2c
Goody's Family Clothing 8
Grace (W.R.) 4
Grainger (W.W.) 21b
Graphic Packaging Intl. 7b
Great A&P 10c
Great Lakes Chemical 4
Great Plains Energy 24a
GreenPoint Financial 17c
Greif Bros. 7b
Griffon 15a
Group 1 Automotive 21e
Gtech Holdings 18c
Guidant 12d

H

Handleman 21e
Harley-Davidson 14d
Harman International 6b
Harrah's Entertainment 14b
Harris 9b
Harsco 15a
Hartford Financial Services 17b
Hasbro 14d
Hawaiian Electric 24a
HCA 12c
Health Management Assocs. 12c
Health Net 12c
HeathSouth 12c
Heinz (H.J.) 10b
Herbalife Intl. 12a
Hershey Foods 10b
Hewlett-Packard 18b
Hibernia 3c
Hilton Hotels 14c
Hollywood Ent. 14b
Home Depot 8
HON Industries 18a
Honeywell Intl. 5
Hormel Foods 10b
Horton (D.R.) 13b
Host Marriott 13b
Household Intl. 17a
Hovnanian Ent's. 13b
Hubbell 9a
Hughes Electronics 9b
Hughes Supply 13a
Humana 12c
Hunt (J.B.) 23d
Huntington Bancshares 3b

I

IBM 18b
Idacorp 24a
IDT 22a
IKON Office Solutions 5
Illinois Tool Works 15c
Imation 18c
IMC Global 4
Immunex 12b
IMS Health 21e
Ingersoll-Rand 15c
Ingles Markets 10c
Ingram Micro 18c
Insight Enterprises 8
Instinet Group 17a
Intel 9d
International Flavors 4
International Game Tech. 15a
Intl. Multifoods 10a
International Paper 19b
Interpublic Group 21d
Interstate Bakeries 10b
Intuit 18c
Iron Mountain 23d
ITT Industries 15c
IVAX 12b

J

J.P. Morgan Chase 3a
Jabil Circuit 9d
Jacobs Engineering 21a
Jefferson-Pilot 17b
Jo-Ann Stores 8
Johnson & Johnson 12d
Johnson Controls 15a
Jones Apparel Group 6a
Joy Global 15c

K

KB Home 13b
Kellogg 10b
Kellwood 6a
Kelly Services 21e
Kennametal 15b
Kerr-McGee 11a
KeyCorp 3b
KeySpan 24b
Kimball Intl. 6b
Kimberly-Clark 6d
Kinder Morgan 24b
Kindred Healthcare 12c
KLA-Tencor 9c
Knight-Ridder 20b
Kohl's 8
KPMG Consulting 21e
Kraft Foods 10b
Kroger 10c

L

L-3 Communications 9b
Laboratory Corp. of America 12c
Laclede Group 24b
Lafarge North America 13a
Lancaster Colony 10b
LandAmerica Financial 17a
Lands' End 8
Landstar System 23d
La-Z-Boy 6b
Lear 2b
Leggett & Platt 6b
Lehman Brothers Holdings 17a
Lennar 13b
Lennox International 13a
Level 3 Communs. 22a
Lexmark Intl. 18b
Lilly (Eli) 12b
Limited 8
Lincoln National 17b
Linens 'N Things 6b
Lithia Motors 21e
Liz Claiborne 21e
Lockheed Martin 1
Longs Drug Stores 12a
Louisiana-Pacific 19a
Lowe's 8
LSI Logic 9d
Lubrizol 4
Lucent Technologies 22a
Lyondell Chemical 4

M

M&T Bank 3a
M.D.C. Holdings 13b
Mail-Well 7b
Mandalay Resort 14b
Manitowoc 15c
Manor Care 12c
Manpower 21e
Marathon Oil 11a
Markel 17b
Marriott Intl. 14c
Marsh & McLennan 17a
Marshall & Ilsley 3b
Martin Marietta Materials 13a
Massey Energy 11a
Mattel 14d
Maxtor 18b
May Department Stores 8
Maytag 6b
MBNA 3a
McCormick 10b

McDermott Intl. 15c
McDonald's 14a
McGraw-Hill 20b
MCI Group 22a
McKesson 12a
MDU Resources Group 24b
MedImmune 12b
Medtronic 12d
Men's Wearhouse 8
Merck 12b
Merrill Lynch 17a
Metris 17a
Metro-Goldwyn-Mayer 14b
Mettler-Toledo Intl. 15c
MGIC Investment 17b
MGM Mirage 14b
Michaels Stores 8
Micron Technology 9d
Microsoft 18c
Milacron 15c
Millennium Chemicals 4
Miller (Herman) 18a
Mirant 24a
Mohawk Industries 15d
Molex 9d
Monaco Coach 2a
Monsanto 4
Morgan Stanley Dean Witter 17a
Motorola 9b
MPS Group 21e
Mueller Industries 16b
Murphy Oil 11a

N

Nabors Industries 11b
Nacco Industries 15b
Nash Finch 10a
National City 3b
National Commerce Finl. 3c
National Fuel Gas 24b
National Semicond. 9d
National-Oilwell 11b
Nationwide Financial Svcs. 17b
Navistar International 2a
NCR 18a
Neiman Marcus Group 8
New Jersey Resources 24b
New York Times 20b
Newell Rubbermaid 15a
Nextel Communications 22a
Nicom 24b
Nike 6a
NiSource 24a
Noble Affiliates 11b
Nordstrom 8
Norfolk Southern 23b
Nortek 13a
North Fork Bancorp. 3a
Northeast Utilities 24a
Northern Trust 3b
Northrop Grumman 1
Northwest Airlines 23a
Northwest Natural Gas 24b
Northwestern 24a
Novell 18c
NRG Energy 24a
NSTAR 24a
Nucor 16a
NUI 24b
NVIDIA 9d
NVR 13b

O

Occidental Pet. 11a
Office Depot 8
OfficeMax 8
OGE Energy 24a
Ohio Casualty 17b
Old Republic Intl. 17b
Olin 16b
OM Group 4
Omnicare 12a
Omnicon Group 21d
ON Semiconductor 9d
Oneok 24b

Oracle 18c
O'Reilly Automotive 8
Oshkosh Truck 2a
Outback Steakhouse 14a
Owens & Minor 12d
Owens Corning 13a
Owens-Illinois 7a
Oxford Health Plans 12c

P

Paccar 2a
PacifiCare Health 12c
Packaging Corp. America 7b
Pactiv 7b
Pall 5
Palm 18b
Pantry 21e
Park Place Entertainment 14b
Parker Hannifin 15a
Pathmark Stores 10c
Patterson Dental 21b
Paychex 21e
Payless ShoeSource 8
Peabody Energy 11a
Penn Traffic 10c
Penney (J.C.) 8
Pennzoil-Quaker State 11a
Pentair 15c
Peoples Energy 24b
PeopleSoft 18c
Pep Boys 8
Pepsi Bottling Group 6c
PepsiAmericas 5
PepsiCo 6c
Performance Food 10a
PerkinElmer 9c
Perot Systems 18c
PetSmart 8
Pfizer 12b
PG&E 24a
Pharmacia 12b
Phelps Dodge 16b
Philip Morris 6e
Phillips Petroleum 11a
Phillips-Van Heusen 6a
Piedmont Natural Gas 24b
Pier 1 Imports 6b
Pilgrim's Pride 10b
Pinnacle West 24a
Pitney Bowes 18a
Pittston 23c
Plum Creek Timber 19a
PMI Group 17b
PNC Financial Svcs. 3a
PNM Resources 24a
Polaris Industries 14d
PolyOne 4
Popular 3c
Potlatch 7b
Potomac Electric 24a
PPG Industries 13a
PPL 24a
Praxair 4
Precision Castparts 1
Pride International 11b
Primedia 20b
Priority Healthcare 12a
Procter & Gamble 6d
Progress Energy 24a
Progressive 17b
Public Service Ent. 24a
Publix Super Markets 10c
Puget Energy 24a
Pulte Homes 13b

Q

Qualcomm 9b
Quest Diagnostics 12c
Questar 24b
Quintiles Transnational 21e
Qwest Communs. 22b

R

R.J. Reynolds Tobacco 6e

Radian Group 17b
RadioShack 6b
Ralphs Holdings 10b
Raymond James Finl. 17a
Rayonier 19a
Raytheon 1
Reader's Digest 20b
Reebok International 6a
Regions Financial 3c
Regis 21e
Reinsurance Group 17b
Reliance Steel & Alum. 21b
Reliant Energy 24a
Reliant Resources 24a
Rent-A-Center 21e
Republic Services 21c
RGS Energy Group 24a
Rite Aid 12a
Roadway 23d
Robert Half International 21e
Robinson (C.H.) 23c
Rock-Tenn 7b
Rockwell Automation 9a
Rockwell Collins 1
Rohm & Haas 4
Ross Stores 8
Rouse 13b
Royal Caribbean Cruises 14d
RPM 13a
Ryder System 23c
Ryerson Tull 16a
Ryland Group 13b

S

Sabre Holdings 18c
Safeco 17b
Safeway 10c
Saks 8
Sanmina-SCI 9d
Sara Lee 10b
SBC Communications 22b
Scana 24a
Schering-Plough 12b
Schlumberger 11b
Scholastic 20b
Schwab (Charles) 17a
Scientific-Atlanta 22a
Scotts 4
Scripps (E.W.) 20b
Seaboard 10b
Sealed Air 7b
Sears, Roebuck 8
Select Medical 12c
Sempra Energy 24b
ServiceMaster 21e
7-Eleven 10c
Shaw Group 15a
Sherwin-Williams 8
ShopKo Stores 8
Siebel Systems 18c
Sierra Health Services 12c
Sigma-Aldrich 12b
Silgan Holdings 7a
Silicon Graphics 18b
Smith (A.O.) 9a
Smith International 11b
Smithfield Foods 10b
Smurfit-Stone Container 7b
Snap-on 15b
Software Spectrum 18c
Soletron 9d
Solutia 4
Sonic Automotive 21e
Sonoco Products 7b
Southern 24a
Southern Union 24b
SouthTrust 3c
Southwest Airlines 23a
Southwest Gas 24b
Sovereign Bancorp 17c
Spherion 21e
Sports Authority 8
Sprint FON Group 22a
Sprint PCS Group 22a
SPX 9a

St. Jude Medical 12d
St. Paul 17b
Stage Stores 8
StanCorp Financial Group 17b
Standard Pacific 13b
Standard Register 18a
Stanley Works 15b
Staples 8
Starbucks 10b
Starwood Hotels & Resorts 14c
State Street 3a
Steelcase 18a
Stewart & Stevenson 15c
Stewart Information Svcs. 17a
Stilwell Financial 17a
Storage Technology 18b
Stryker 12d
Student Loan 17a
Sun Microsystems 18b
SunGard Data Systems 18c
Sunoco 11a
SunTrust Banks 3c
Supervalu 10a
Swift Transportation 23d
Symantec 18c
Symbol Technologies 18b
Synovus Financial 3c
Sysco 10a

T

Take-Two Interactive 18c
Talbots 8
Target 8
TCF Financial 3b
Tech Data 18a
Teco Energy 24a
Tecumseh Products 13a
Teleflex 15a
Telephony & Data Sys. 22a
Tellabs 22a
Temple-Inland 7b
Tenet Healthcare 12c
Tenneco Automotive 2b
Terex 15b
Tesoro Petroleum 11a
Texas Industries 16a
Texas Instruments 9d
Trex 5
Thermo Electron 9c
Thomas & Betts 9d
Thor Industries 14d
3Com 18c
3M 15a
Tiffany 8
Timken 15c
Titan 18c
TJX 8
Toll Brothers 13b
Torchmark 17b
Toro 15c
Tower Automotive 2b
Toys 'R' Us 8
Trans World Entertainment 14d
Transatlantic Holdings 17b
Transocean Sedco Forex 11b
Travelers Property Casualty 17b
Triad Hospitals 12c
Tribune 20b
Tricon Global Restaurants 14a
Trigon Healthcare 12c
Trinity Industries 23c
Trump Hotels 14b
TRW 5
TXU 24a
Tyco Intl. 5
Tyson Foods 10b

U

U.S. Bancorp 3b
U.S. Cellular 22a
UAL 23a
UGI 24b
UICI 17b
Union Pacific 23b
Union Planters 3c

UnionBanCal 3d
Unisys 18b
United Auto Group 21e
United Defense Inds. 14
United Natural Foods 10
United Parcel Service 23
United Rentals 21e
United States Steel 16a
United Stationers 21b
United Technologies 1
UnitedHealth Group 12c
Unitrin 17b
Universal Forest Products
Universal Health 12c
Unocal 11a
Unova 15c
URS 21a
US Airways Group 23a
US Oncology 21e
USA Education 17a
USA Networks 20a
USFreightways 23d
USG 13a
UST 6e

V

Valero Energy 11a
Valspar 13a
Value City 8
Varco International 11b
Vectren 24b
Veritas Software 18c
Verizon Communication
VF 6a
Viacom 20a
Viad 5
Visay InterTechnology 9
Visteon 2b
Volt Info. Sciences 21e
Vulcan Materials 13a

W

Wachovia 3c
Walgreen 12a
Wallace Computer 18a
Wal-Mart Stores 8
Walter Industries 5
Washington Mutual 17c
Washington Post 20b
Weatherford Intl. 11b
Weis Markets 10c
WellPoint Health 12c
Wells Fargo 3b
Wendy's Intl. 14a
Werner Enterprises 23d
WESCO International 21b
Western Digital 18b
Western Resources 24a
WestPoint Stevens 15d
Weyerhaeuser 19b
WGL Holdings 24b
Whirlpool 6b
Williams 24b
Williams-Sonoma 6b
Wilsons Leather 8
Winn-Dixie Stores 10c
Wisconsin Energy 24a
WorldCom Group 22a
Worthington Inds. 16a
WPS Resources 24a
Wrigley (Wm.) Jr. 10b
Wyeth 12b

X

Xcel Energy 24a
Xilinx 9d
XL Capital 17b

Y,Z

Yellow 23d
York Intl. 13a
Zale 8
Zimmer Holdings 12d
Zions Bancorporation 3d

What does product development mean to EMC?



*"Driving product innovations
like a startup, getting them to market
like a global leader."*

*—Dave Ellard, Senior Vice President and CIO
EMC Corporation*

As manufacturers look for new ways to stay ahead, more and more are returning to what really sets them apart—their products. That's why visionary CIOs like Dave Ellard have put themselves on the product development team. PTC collaborative product development solutions have allowed EMC to cut weeks out of core processes and deliver the next generation of storage solutions faster. "Ultimately, what PTC has helped us do is make our entire company more scalable," says Ellard, "so we extend our leadership." For more, download our case study on EMC at www.ptc.com/go/emc.

Product development means business.™



©2002 Parametric Technology Corporation. PTC and its logo, Shaping Innovation, Create Collaborate and Control, ProductFirst, and Product Development Means Business are trademarks or registered trademarks of Parametric Technology Corporation or its subsidiaries in the United States and in other countries. EMC is a registered trademark of EMC Corporation.

Did the aircraft giant exploit accounting rules to conceal a huge factory snafu?

BY STANLEY HOLMES
AND MIKE FRANCE

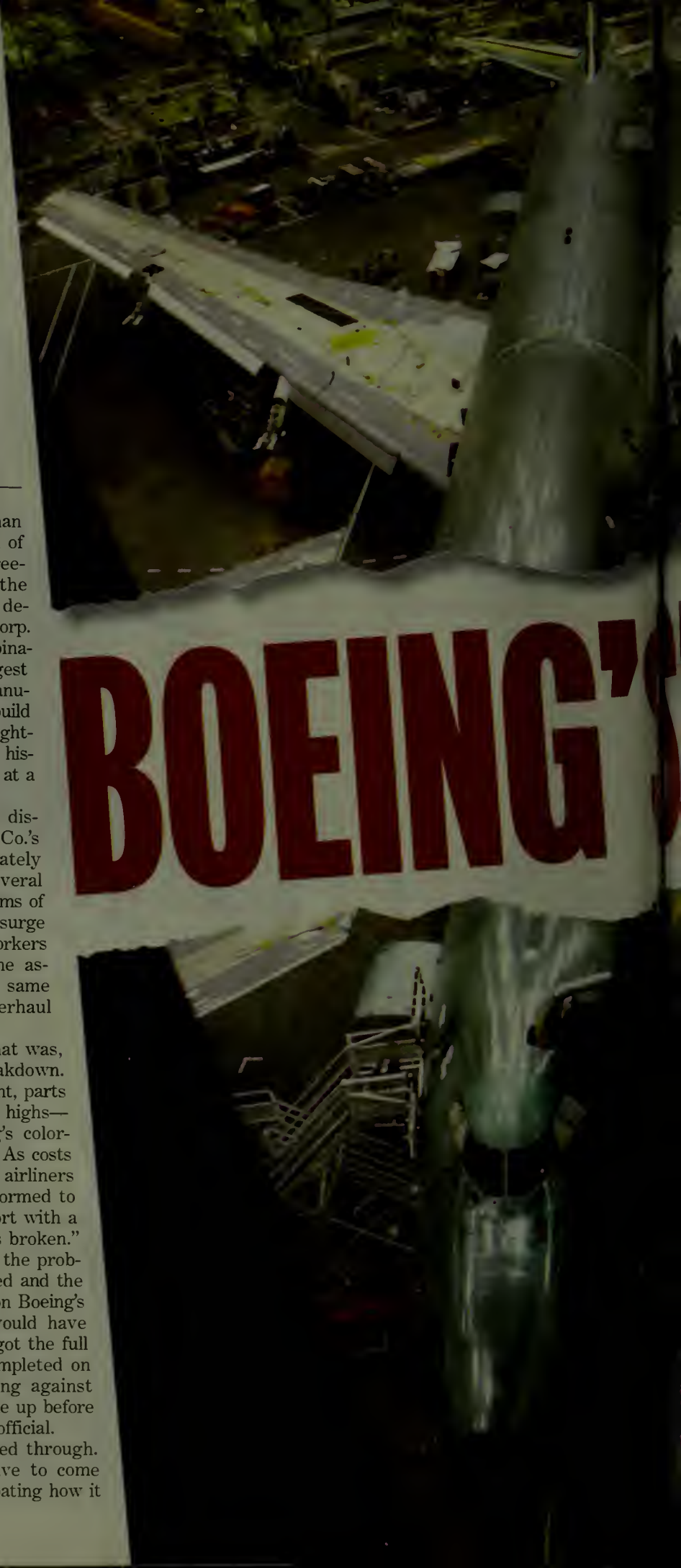
On Dec. 11, 1996, Boeing Chairman Philip M. Condit closed the deal of his career. After a relentless three-year courtship, he persuaded the initially reluctant directors of defense giant McDonnell Douglas Corp. to agree to a merger. The combination would create the world's largest aerospace company—the first manufacturer ever with the ability to build everything that flies, from helicopters and fighter jets to space stations. “This is, I believe, a historic moment in aviation,” Condit proclaimed at a Dec. 15 press conference.

But far from the glare of TV cameras, a disaster was quietly unfolding inside Boeing Co.'s sprawling factories—one that would ultimately wind up costing billions of dollars, cause several executives to lose their jobs, and lead to claims of accounting fraud. Facing an unprecedented surge in orders because of a booming economy, workers were toiling around the clock, pushing the assembly line to the breaking point. At the same time, the company was struggling to overhaul outdated production methods.

These pressures were building up to what was, in essence, a manufacturing nervous breakdown. In the weeks after the merger announcement, parts shortages and overtime approached all-time highs—triggering red warning signals in Boeing's color-coded system for monitoring factory health. As costs went through the roof, the profitability of airliners such as the 777 swooned. A special team formed to study the crisis in May, 1997, issued a report with a blunt conclusion: “Our production system is broken.”

If investors had understood the scope of the problems, the stock would probably have tumbled and the McDonnell deal—a stock swap that hinged on Boeing's ability to maintain a lofty share price—would have been jeopardized. But shareholders never got the full picture until well after the merger was completed on Aug. 1, 1997. Top executives “were hoping against hope that none of the problems would bubble up before they got the deal done,” says a Boeing ex-official.

Their wish came true, and the deal sailed through. Recognizing that the bad news would have to come out eventually, company leaders started debating how it



BOEING'S

PHOTOGRAPH BY RAY VELLA/BW

PHOTOGRAPH BY MIKE SIEGEL/SEATTLE TIME



should be released. One public-relations manager lobbied for disclosure on Sept. 6 or Sept. 13—the dates of the funerals for Princess Diana and Mother Teresa—when a grieving public would presumably overlook the story. Those proposals were nixed. On Oct. 8, former McDonnell CEO Harry C. Stonecipher, by then Boeing's president and chief operating officer, shot an e-mail to Condit. "We do know for certain that there is a big surprise coming, and I think we owe the Street a heads-up. We have an unmitigated disaster on our hands and need some very candid damage control," he wrote in an e-mail that was disclosed in a securities-fraud suit filed against Boeing in Seattle.

Cover Story

Condit, who in his 32 years at Boeing had yet to experience a failure, responded that the disclosure should be delayed. "My bias is to soften the third-quarter hit with some warning," he wrote. "Assuming the scale of the problem remains, use the fourth quarter to prepare the Street to take the real hit then."

On Oct. 22, Condit made the bombshell announcement: The company's massive production problems would force it to write off \$2.6 billion—by far the biggest charge in Boeing's history. Overnight, shares fell 8%, to \$49.88, wiping out about \$4.3 billion in value. As investors digested the scope of the mess, the company lost years of hard-earned credibility and the stock fell a further 12%, to 43, by Oct. 27. The stock stayed in a trough throughout 1998 and won the dubious distinction of being dog of the Dow that year.

The story of how Boeing kept its 1997 production disaster secret has never been made public. Although the company subsequently fixed the assembly-line problems—and it has recently received praise for its diversification efforts—the tale provides a sobering view of how easily management can keep investors in the dark. It also sheds light on the little-known "program-accounting" method used in aerospace to this day. A controversial system that many analysts criticize for its lack of transparency, it continues to give Boeing broad leeway to goose earnings—and to make it one of the toughest companies in America to evaluate. In a deal approved by U.S. District Judge Thomas S. Zilly on Feb. 20, 2002, Boeing settled a private securities-fraud suit over the 1997 episode for \$92.5 million. The company did not admit guilt. Although some of the evidence uncovered by the plaintiffs' lawyers was revealed in court documents, the vast majority was locked under seal at Boeing's request.

In a three-month investigation, *BusinessWeek* has reconstructed this hidden chapter in the company's history—and analyzed its current implications. New details supplied by several inside witnesses indicate that Boeing did more than simply fail to tell investors about its production disaster. It also engaged in a wide variety of aggressive accounting techniques that papered over the mess. Critics say the company should have taken charges for the assembly-line disaster in the first half of 1997, even if it meant jeopardizing the McDonnell merger. They also claim that Boeing took advantage of the unusual flexibility provided by program accounting—a system that allows the huge upfront expense of building a plane to be

KEPT UNDER WRAPS

The production mess, if revealed in early 1997, would have hurt Boeing's stock—and maybe a big merger

spread out over several years—to cover up cost overruns and to book savings from efficiency initiatives that never panned out. “Boeing managed its earnings to the point where it got caught,” says Debra A. Smith, a partner at Constraints Management, a Seattle-area manufacturing consultancy, and a former senior auditor at Deloitte & Touche who worked on the company’s account during the early 1980s. “Boeing basically decided in the short run that [managing earnings] was a lesser evil than losing the merger,” adds Smith, a onetime accounting professor at the University of Puget Sound in Tacoma, Wash.

At a time when investors are asking themselves how far Corporate America can be trusted, the Boeing saga provides rich new evidence that companies have much greater leeway to manipulate their numbers than most people suspect. The aerospace giant was a widely held blue chip that had a huge short-term incentive to prop up its stock price. Taking advantage of an investment community willing to tolerate the company’s opaque reporting system, executives managed to conceal fundamental operational problems for nearly a year. Some of these officials, including Condit, are still at Boeing. To this day, they insist that they had no obligation to disclose cost overruns when they occurred in the first half of 1997—which raises the question of how swiftly they would let investors know if a similar problem arose today.

As is often the case, none of the outside watchdogs ever barked. The board never forced Condit to come clean about the company’s production problems. Stock analysts and business journalists underestimated them. And although the company’s auditor, Deloitte & Touche, raised red flags about Boeing’s troubles, it doesn’t seem to have put much pressure on its big client to share this information with investors (page 120). As a result, Boeing’s financial reporting in early 1997 bore little relationship to its business reality. When the company finally disclosed its problems, “I was stunned,” recalls Richard J. Glasebrook II, managing director of Oppenheimer Capital, owner of 5% of McDonnell at the time. “I thought that Boeing had the building of commercial aircraft down cold.”

For its part, Boeing insists it never misled shareholders at all—and that critics and plaintiffs’ lawyers are holding the company up to unreasonable standards. Noting that the construction of planes is an incredibly complex and expensive endeavor, it says that managers told the public about the 1997 production problems as soon as they were legally required to do so. It also points out that the Securities & Exchange Commission never filed charges. Boeing defends program accounting as a legitimate way to report performance and notes that its accounting decisions were approved by Deloitte—which was not named in the fraud suit. All of the key players in the drama, including Condit, Stonecipher, and former Chief Financial Officer Boyd E. Givan, declined to comment. “Boeing and its senior management always tried to do the right thing,” the company wrote in a letter to *BusinessWeek*. “Boeing and its executives frequently disclosed Boeing’s production difficulties.” Deloitte also insists it acted properly.

So why did Boeing spend \$92 million to settle fraud claims? General Counsel Douglas Bain says the company did not want to risk litigating complex accounting issues in front of a lay audience. He adds that because the case would have been tried in Seattle, which felt stung after Boeing moved its headquarters to Chicago on Sept. 1, 2001, company lawyers feared a vindictive jury. Instead, it was willing to accept the settlement—which Bain says is totally covered by the company’s insurance policies.

A GATHERING STORM

Despite the smiles, Condit and Stonecipher talked early on about when to break bad news

DID BOEING TAKE SHAREHOLDERS BY THE REINS?

Critics charge that Boeing delayed disclosing problems

What Boeing Told the Outside World

DEC. 11, 1996

Boeing’s Phil Condit and McDonnell-Douglas’ Harry Stonecipher shake hands on \$16.1 billion merger, the biggest ever in the industry. Condit deems it “a historic moment in aviation.”

\$48.68

APR. 28, 1997

At Boeing’s meeting with shareholders, Condit says the company is in “some short-term production problems,” but he assures them that they will not be repeated in the remaining quarters of the year.

\$52.50

\$48.75

What Execs Said Internally

DEC. 2, 1996

Outside auditor Deloitte & Touche warns Boeing’s audit committee that “production performance metrics began to trend unfavorably—overtime, parts shortages, rework, defective parts, and out-of-sequence work increased.”

MAR. 20, 1997

Gary Scott, president of Boeing’s 737/757 program, writes in a memo: “Late [plane] deliveries are becoming a significant problem.”



A RIDE?

until after the merger with McDonnell

MAY 21, 1997

Week before the merger, Boeing reports good news: second-quarter earnings of \$34 million. Critics say this ignores cost overruns and probable delivery penalties.

OCT. 22, 1997

The bombshell: CEO Condit announces that Boeing will take a \$2.6 billion write-off for the third quarter after production problems reached "unexpected levels" late in the third quarter.



MAY 27, 1997

Five days before the start of the second quarter, Boeing executives are told that 15 of the 150 aircraft probably miss delivery dates.

OCT. 8, 1997

Stonecipher warns Condit that "we have an unmitigated disaster on our hands and need some very candid damage control."

THE ROOTS OF THE PRODUCTION CRISIS

If the Boeing lawsuit had gone to trial, jurors would have heard a story that begins around 1996, when Boeing was facing a strategic crisis because of shrinking defense business. Condit had a choice: either acquire a bigger share of the market or drop out of it. Since defense provided stable income to offset roller-coaster commercial plane sales, Condit chose to grow, buying Rockwell Aerospace & Defense in August, then striking the McDonnell deal just four months later. The ambitious chairman, always admired more for his strategic shrewdness than his operational expertise, was hoping to seal his legacy. But this bold expansion came at a time when the company faced mounting internal problems.

As the global economy emerged from recession in the early 1990s, aerospace companies enjoyed skyrocketing orders, which rose worldwide from 15 aircraft in 1993 to 898 in 1996. But Boeing's antiquated parts-tracking system couldn't keep up with the increased production volume. And supply problems prevented it from getting enough seats and electronic gear on time.

This problem was compounded in late 1994 when Boeing realized that rival Airbus Industrie, the European consortium, was undercutting it on price, thanks to lower manufacturing costs and government subsidies. By that year, Airbus had grabbed 30% of the global jet-plane market—up from less than 3% two decades earlier. It was a potentially devastating development, since lost customers in the airliner industry are hard to win back after they've spent a fortune training pilots and mechanics on rivals' equipment.

Boeing was forced to knock down costs across the board. It made early-retirement offers to 9,500 workers in 1995, slashing its staff of veteran mechanics and engineers. Execs also rolled out a bug-ridden new computer system for tracking parts, known by the unwieldy name of Define & Control Airplane Configuration/Manufacturing Resource Management (DCAC). As a consultant pointed out in a report to factory execs in the summer of 1997, the prospect of doubling production rates in the face of such change was like attempting "a four-and-a-half somersault off a 50-foot board into a pail of water."

Cover Story

By early 1997, warning signs were everywhere that Boeing's overheated factories were boiling over. On Dec. 2, 1996, Deloitte & Touche had alerted the board's audit committee "that production performance metrics began to trend unfavorably—overtime, parts shortages, rework, defective parts, and out-of-sequence work increased." About a dozen alarmed managers at the company's giant Renton (Wash.) facility met in May for a "reality check" meeting. They calculated that Boeing's production system was more than \$1 billion over initial cost projections. One manager taking notes at the get-together concluded that "we have a real financial crisis on our hands" with "no relief" in sight.

While top execs did acknowledge publicly that the company was having some production problems in the first half of 1997, they consistently underplayed the issue. In fact, the company developed a Production Issues Communication Plan on Mar. 27, 1997, to stave off "focus[ed] media attention on the issue of our ability to meet customer commitments." The document, among other things, coached executives on how they should respond to reporters' questions, according to plaintiffs' lawyer Steve W. Berman, who brought the fraud suit against Boeing. Talking to reporters after the company's annual meeting in April, 1997, Condit said that the ramp-up in demand "has resulted in a near-term decline in productivity at company facilities and some supplier locations." With

Boeing still uses controversial "program accounting" that lets it offset steep upfront costs with distant payoffs

characteristic confidence, he said that the first quarter's inefficiencies "would not be repeated during the remaining quarters of the year" and that the company was not having "systematic" assembly-line malfunctions.

But already many managers were predicting late deliveries—a catastrophe that aircraft makers avoid at all costs, since it triggers enormous late fees and wreaks havoc on customers' business plans. As Boeing's Gary Scott, vice-president for 737/757 production, wrote in a memo on Mar. 20, 1997: "Late deliveries due to late [engineering] releases are becoming a significant problem." As the weeks wore on, the delays grew worse. On June 27, three days before the end of the second quarter, about a dozen Boeing commercial airplane executives met in a windowless meeting room in Renton for their second-quarter financial plan review. They learned that at least 15 aircraft would probably miss their delivery dates, according to the plaintiffs' complaint.

INSIDE CONCERN, OUTSIDE ASSURANCES

At this point—about a month before the McDonnell merger vote—Boeing should have started sharing some of the bad news with investors, according to Smith and other independent accounting experts. Under special aerospace industry rules that are part of generally accepted accounting principles (GAAP), companies are required to accrue reserves for probable late-delivery penalties and disclose them in the quarter they become known. Additionally, "abnormal" costs must be recognized in the quarter in which they are incurred. Expenses stemming from the company's production problems in the first half of 1997 "should have been booked in the quarters they were incurred and reflected in the profit numbers for those quarters," says Eugene A. Imhoff Jr., an independent expert on program accounting at the University of Michigan.

But Boeing never did so. On July 21, 1997, it reported second-quarter earnings of \$334 million—a number that under-



FROM A ONETIME BOEING AUDITOR
Boeing decided managing earnings "was a lesser evil than losing the merger," says Debra Smith

stated its production costs, the suit charges, by \$292 million. What's more, investors still

had no idea that the company had run up \$253 million in unexpected costs in the first quarter or that it would soon would be facing more than \$200 million in late-delivery penalties.

Boeing says it would have been a violation of GAAP to recognize any increased production charges in the first half of 1997. Of the 15 planes viewed as potential late deliveries on June 27, it says that "nearly all" shipped on time. Noting that costs always increase sharply during growth periods, lawyer Bain says the unplanned escalation in expenses that the

company suffered in early 1997 was consistent with historical patterns. Therefore, he argues, they were not "abnormal" and did not meet the test, under GAAP, for an immediate write-off. Boeing argues that nothing "abnormal" happened until it had to halt its production lines on Oct. 3. The law was primarily "a hindsight dispute about the timing of the write-off," says Ronald W. Stahlschmidt, a program-accounting expert hired to be a company witness.

But a Deloitte working paper written in the second half of 1997 offers evidence that some members of the audit team took the opposite view: that the cost overruns should have been charged in the first half of the year. In a memo, Deloitte called the production disruptions in the first and second quarters "so abnormal as to require treatment as current-period charges." The auditor then said that Boeing's

decrease in third-quarter earnings was "retroactively applied to the first and second quarters of 1997. Boeing says that 'retroactive' does not suggest that Boeing should have restated first- or second-quarter 1997 earnings. It means only that, in taking a charge correctly in the third quarter, Boeing estimated the charge by reference to year-end data."

BAILING OUT THE 777

The 1997 assembly-line meltdown afflicted every type of plane Boeing made. But it created a particular problem for the prestigious 777 line, according to former Boeing employees. To understand why, it's necessary to look closely at the unusual accounting system used by the aerospace industry. The program-accounting method was developed by Boeing and others in the industry in the 1960s to deal with a central problem: most of the costs of creating a new plane are incurred in its early years, while revenues roll in during later years.

To smooth out costs and revenues, aerospace companies are allowed to average them over the entire duration of an airplane "program"—usually defined as an initial production run of 400 aircraft. They do this by establishing a projected profit margin up front—say, 10% for the entire line. This number, which is continuously updated, is based on Boeing's estimates of the average costs and revenues over the remainder of the program. Every quarter, the "profit" the company reports is based on these projected averages, rather than its actual costs or revenues. The whole system is built on faith that aerospace companies can come up with accurate long-term forecasts. To a degree unmatched in nearly any other industry, aerospace companies' disclosures are based on their own private estimates. In this way, companies such as Boeing can absorb the ups and downs that characterize the industry.

Cover Story



GENERAL LIABILITY



COMMERCIAL AUTO



PROPERTY



WORKERS COMP

**There's no
such thing as a
workplace that's
too safe.**

At least that's how we see it. In fact, our long-standing obsession with safety has resulted in some of the industry's most innovative and cost-saving approaches. Take Performance Benchmarking Analysis (PBA). PBA begins by comparing a client's loss figures—including 15 different loss prevention factors—against those of its competitors. Our experts then offer specific suggestions for improving safety and cutting costs. PBA is unique in that it gives companies—no matter how specialized they are—a crystal clear picture of how they can better manage their losses and increase profitability. Since the program began, it's helped our clients save millions. Of course, we like to think that we've empowered them in other ways. Like setting higher goals, increasing productivity and raising loss prevention awareness at the highest levels. All of which goes to show that a little obsession with safety can be a beautiful thing. Not to mention a profitable one.

IT'S MORE THAN INSURANCE. IT'S INSURANCE *IN ACTION*.

For more information on how to help make your workplace safer,
visit www.libertymutual.com or call 1-800-4-LIBERTY.



**Liberty
Mutual.**

Boeing insists it never misled shareholders and that it had no duty to disclose the cost overruns in early 1997

But that comes at a considerable price: little transparency for investors. "The problem with program accounting is that it is virtually impossible to audit," says Lynn E. Turner, former chief accountant at the SEC and now director of the Center for Quality Financial Reporting at Colorado State University. "No one really knows whether the company will produce as many planes as [are] needed to recover the costs."

To mitigate this problem, the rules require companies to take an immediate charge as soon as they have evidence that a line's long-term profit margin will disappear—or, in industry lingo, that the program will be in a "forward-loss" position. And that's just what appears to have been happening to the 777 line in early 1997. Launched with great fanfare in the early 1990s, it had a development budget of \$5 billion to \$7 billion for initial design, production tooling, and flight-testing. By 1995, it had quietly overrun this budget by nearly 100%, according to two former high-ranking Boeing managers.

The prospect of a forward loss in the 777 was galling to Boeing, since it was the newest model—the plane that boasted the most advanced

Cover Story

technology, that was to drive the company's performance in the next decade, and that carried Condit's reputation. Downgrading the 777's forecast would have been not only an embarrassment but also a threat to the merger. So it was bad news when, in its 1996 audit, Deloitte said the "low gross margin" projected for the current block of 777 aircraft risked a decline in "cost performance that would place the program in a forward-loss position."

To avoid this humiliation, the company allegedly started to shift monetary reserves from healthier aircraft programs to keep the 777 on budget, according to the complaint and two former high-ranking executives. These are funds that would accumulate when Boeing overestimated the costs for some plane lines. Officers established "management reserves" to pay for, as current corporate Controller James M. Bell put it, "unknown unknowns"—unexpected expenses that historically arise because of the complexity of airplane construction.

While the establishment of these management reserves is perfectly legal, it is a violation of GAAP to shift money from one program to another. Nevertheless, a handwritten note from a Boeing employee dating from May or June, 1997, said the company had borrowed from other divisions to boost the 777. "Much of the reserve balance used to cover performance was generated by other divisions and spent on the 777 division," it ran. Specifically, the company drew on reserves from the profitable 767 line after the reserve established

for the 777 "was overrun" in early 1997, says one former manager.

Boeing vehemently denies it shifted reserves. The written 1997 note "did not mean what the plaintiffs' law suggested it meant," says Douglas Greene, an outside lawyer at Seattle's Perkins Coie who represented Boeing in the securities-fraud litigation. Boeing did not, and does not, have "off-balance-sheet," "cookie-jar," or "general contingency reserves," says Judith Muhlberg, vice-president for communications. "All reserves at Boeing are related to specific ite

QUESTIONABLE EFFICIENCIES

Another method Boeing allegedly used to stave off a write-off was exaggerating the effectiveness of some of the cost-savings initiatives it had launched in the 1990s. Under the flexible rules of program accounting, makers are permitted to make projections about efficiency efforts and start tabulating the benefits immediately—even as a practical matter, the initiative isn't yet working.

But this practice can run afoul of the law, Berman claims if it is intended to prevent a particular airplane program from getting into a forward-loss position, which would require the company to take a current charge against earnings—that's just what he says was happening in 1997.

According to the plaintiffs' complaint, Boeing "arbitrarily manipulate[d] cost-savings figures upwards in order to keep 777 gross profit estimates from falling into a [forward-loss] position" during the second quarter of 1997. The complaint cited

a Deloitte working paper that Boeing's managers admitted second-quarter cost-reduction measures were "a plug" to keep the profit margins on target. A plug is a commonly used accounting term for a number artificially generated to produce a desired result.

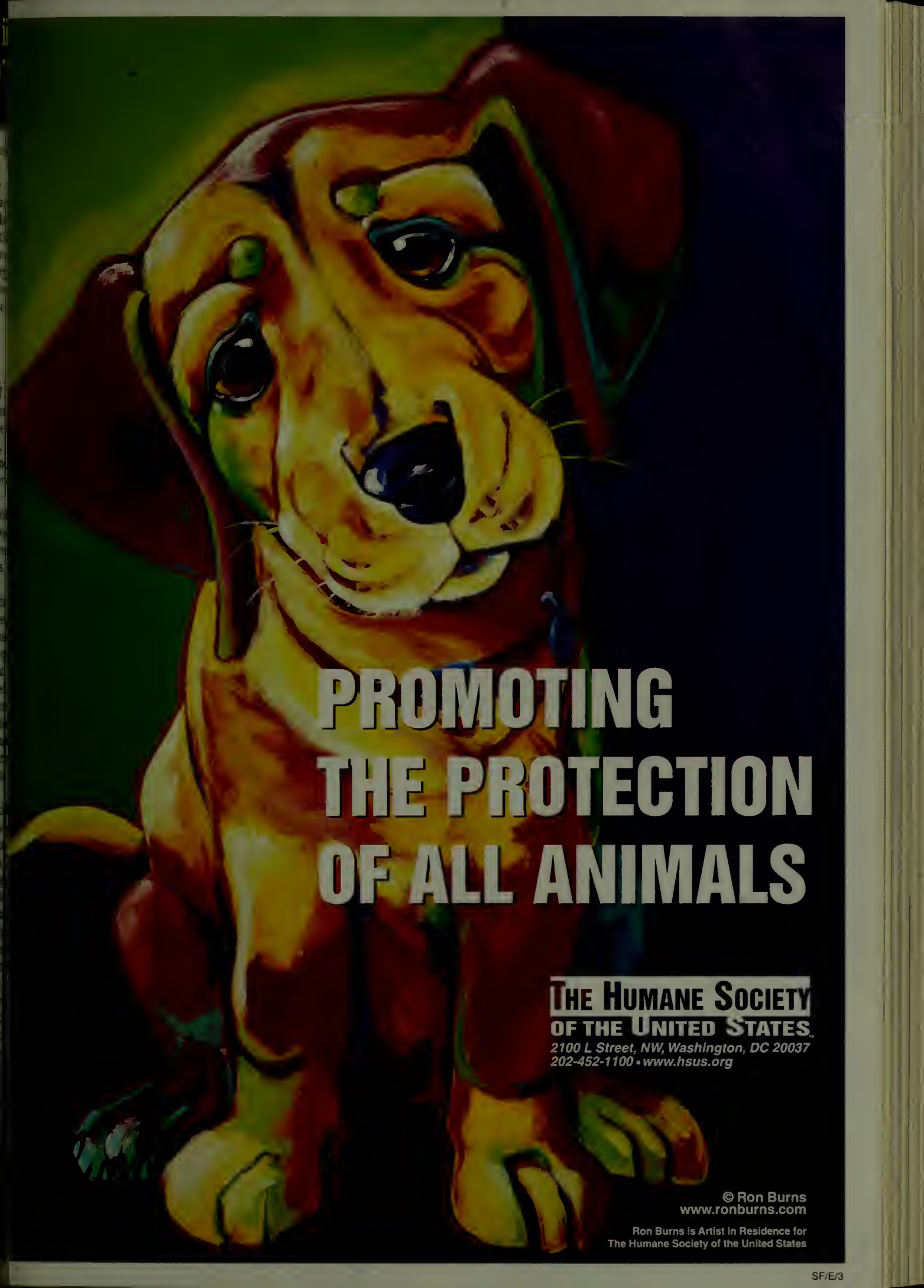
It is unclear which particular savings initiatives were used to create the alleged plug. As part of its plan to catch up to Airbus, Boeing had several efficiency programs under way. But former employees assert that the estimated savings from the DCAC parts-tracking initiative, for one, were exaggerated. Launched in 1994, the program had a total of \$1 billion, they say. Boeing estimated it would pay for it in two years—and cut the expense of building a plane by at least

Problem was, the program cost far more than had been anticipated. Almost from the start, the software was riddled with bugs. One exec involved in DCAC estimates that overruns reached hundreds of millions of dollars. A 1997 internal audit in the third quarter of 1997 revealed that estimated cost savings were being "arbitrarily predetermined" to show more



BUILDING A 777

As costs mounted, Boeing allegedly shifted funds from other programs so the 777 would appear to be on budget



PROMOTING THE PROTECTION OF ALL ANIMALS

**THE HUMANE SOCIETY
OF THE UNITED STATES**

2100 L Street, NW, Washington, DC 20037
202-452-1100 • www.hsus.org

© Ron Burns
www.ronburns.com

Ron Burns is Artist in Residence for
The Humane Society of the United States



Make the best executive decision...
advertise in **The MNI Executive Network.**



MEDIA NETWORKS, INC.

Local Ads. National Mags.

877.ASK.4MNI

www.mni.com

Of all people, a CIO should know the value of networking.

Talk about gaining perspective. Join forces with other top CIOs and recognized thought leaders to discuss **Efficiency, Security, and Growth in an Age of Discontinuity, June 20-21, 2002**, at BusinessWeek's 2nd Annual CIO Summit at The Westin Copley Place, Boston, Massachusetts.

To reserve your place at BusinessWeek's CIO Summit, call (877) 734-4249, email: cio2002@businessweek.com, or visit us at www.conferences.businessweek.com/cio2002

Confirmed Speakers



Gregor S. Bailer
CIO, Capital One



Rob Clyde
CTO, Enterprise
Solutions Division,
Symantec Corporation



Timothy M. Ferrarell
SVP, Enterprise
Systems, W.W.
Grainger, Inc.



Robert J. Herbold
Former COO,
Microsoft



Paul Lacouture
President, Network
Services Group, Verizon
Communications



Janey A. Place
EVP, eCommerce Strategy,
Mellon Financial



C.K. Prahalad
Professor of Business
Administration,
University of Michigan
Business School;
Chairman, PRAJA inc.



Ronald V. Rose
CIO, priceline.com



Cecil O. Smith Jr.
SVP & CIO,
Duke Energy



Philip S. Thompson
VP, Business
Transformation & CIO,
IBM

Presented by



The McGraw-Hill Companies

Sponsored by



See inside



Sponsorship opportunities, please contact Jim Richardson at (212) 512-4435.

Welcome reform: Since 1999, Boeing provides investors extra information based on standard unit accounting

savings benefit than actually existed. When production managers at Boeing's Wichita assembly plant were shown the estimated savings they were expected to meet in March, 1997, "no one would sign off on these numbers" because the savings

benefit appeared unrealistic, according to a report written by internal auditor Susan

Cover Story

Parker. Even without the signatures, the DCAC savings figures were included in that year's business plan, the report states. Boeing declined to discuss in detail the allegations that it used bogus cost savings to prop up the 777. "We are limited in the amount of things we want to say about it for competitive and proprietary reasons," says Muhlberg. She added that "Boeing believes that its DCAC/MRM...cost-savings estimates were reasonable when made."

CONTROVERSY OVER PROGRAM ACCOUNTING

Boeing's efforts paid off: The company never declared a forward loss on the 777 in 1997—and has not done so at any time since. Does that mean that the line met the original profitability targets? Not necessarily. Very quietly, Boeing has bought itself time to resolve the line's problems by increasing the number of planes in the 777 program. The initial block of 400 units has been extended twice—first to 500 planes, and then later to 600.

Under the rules of program accounting, these maneuvers directly improve the 777's reported profitability by lowering the percentage of the original development costs that are charged each quarter. Just extending the block from 500 to 600 aircraft reduced deferred production costs for the 777 program alone by \$8 million per plane, according to Todd Ernst, a Prudential Securities Inc. aerospace analyst. He calculated that this saved Boeing \$68 million a quarter and boosted quarterly earnings by up to 6¢ a share for 2001. "The magnitude of the impact struck me," he said. "It was a big change in the cost of the airplane."

A neat trick—and one that is perfectly legal under the GAAP rules gov-

erning program accounting. The company didn't have to announce this important development with a big press conference. To the contrary, the news was buried in a cryptic sentence deep in Boeing's 2000 10-K. For its part, Boeing says that programs are extended not to defer production but to reflect more sales than originally anticipated. When Boeing has firm sales contracts or high "certainty that the line is going to absorb more airplanes than we have in the [program], we extend it," says Controller Bell.

No doubt other corporations would love to have such financial flexibility. The wonders of program accounting give Boeing more ability to paper over any short-term downturn than is enjoyed in nearly any other industry. As a result of this situation, investors need to be able to place an unusually high degree of faith in the company's managers. Boeing says that it has always earned shareholders' confidence through its rigorous cost- and sales-estimation process. The budgeting process in 1997, for example, was "methodically analytic," the company wrote to *BusinessWeek*. "It represented Boeing's half-century of experience in manufacturing commercial airplanes. Hundreds of industrial engineers and accountants worked as separate teams to estimate the thousands of separate cost items in each program."

That may well be the case. But if there's a moral story, it's that when the stakes are high, the temptation to take advantage of any flexibility in accounting stan-

can be great. "If you prove that subjective judgments are wrong to the tune of \$92 million, they really have been generating their hope for the future," according to Imhoff, the University of Michigan program accounting expert. The system with which executives have the capacity to manipulate program accounting is one reason why the SEC told the American Institute of Certified Accountants in the 1980s that it would permit the extension of the system to other industries, according to Todd the former SEC accounting chief.

After the 1997 downturn, Condit nearly lost his job and Chief Financial Officer Givan was placed in the position of Deborah C. Hopkins to regain credibility with markets, the company took definite steps in effort to increase its financial transparency. Former company of

ROUGH LANDING

The 1997 production meltdown plagued Boeing for years

OCT. 31, 1997 After company's market capitalization dives by \$4 billion, lawyers file a securities-fraud suit on behalf of shareholders in U.S. District Court in Seattle.

SEPT. 8, 1998 U.S. District Judge Thomas Zilly rejects the company's motion to dismiss the case, holding that there is enough evidence of fraud to merit a trial.

DEC. 31, 1998 In a year when the Dow Jones industrial average rises 16.1%, Boeing falls 33.3%—becoming "dog of the Dow." Much of the drop is attributable to the Asian crisis.

APR. 15, 1999 CFO Hopkins announces the first of several new financial-improvement initiatives, including reporting some traditional unit-cost data for airplanes.

MAY 1, 2000 Judge Zilly grants class-action status to two groups of shareholders: Boeing investors and McDonnell Douglas investors.

SEPT. 1, 2001 Boeing moves its headquarters from Seattle to Chicago—which it says led to the decision to settle the fraud case rather than risking going to trial before a Seattle jury.

SEPT. 21, 2001 The two sides reach a tentative settlement for \$92.5 million.

FEB. 20, 2002 Judge Zilly approves the settlement.

Introducing the most innovative
shipment information technology.



- MANAGE YOUR SHIPPING TO BENEFIT YOU AND YOUR CUSTOMERS
- USE YOUR ADDRESS OR ACCOUNT NUMBER TO TRACK SHIPMENTS
- KNOW WHERE YOUR SHIPMENTS ARE NO MATTER WHERE YOU ARE
- FEDEX INSIGHT. ONLY FROM FEDEX. TO GET IT, GO TO FEDEX.COM

Need to see what's coming,
what's going and what's inside?
Don't worry. There's a FedEx for that.SM

FedEx
fedex.com

"You can drive a truck through what's GAAP in aircraft manufacturing," says one brokerage analyst

say that Hopkins and Stonecipher toyed with the idea of dropping program accounting altogether. The two Boeing executives complained that the system confused investors and didn't provide managers with sufficiently detailed information about the costs involved in manufacturing an aircraft. "You cannot reduce the cost of a wing if you don't know where you are starting," Stonecipher complained in an April, 1999, interview with *CFO* magazine.

That idea was abandoned. But in 1999, the company did start providing investors with supplemental information based on standard unit accounting. For example, it now supplies a line item in its reports indicating what the commercial airplane division's quarterly earnings would be on a traditional unit basis.

This information, in theory, should make it harder for the company to mask a production crisis ever again. But analysts complain that the direct operating income of the commercial aircraft division is mixed in with earnings from its pension fund and leasing business. And those items,

which are only disclosed annually, can be significant. In 2001, pension-fund income accounted for about \$78 million, or 18.6% of Boeing's pretax earnings. "A whole mash of other operating items get thrown into this unit accounting line item," complains Robert Friedman, aerospace analyst at Standard & Poor's. "It definitely clouds the clarity of earnings picture."

So while Boeing is not as big a mystery today as it was in 1997, it is still much harder to evaluate than most companies. Its accounting methods are none too popular with the professionals charged with decoding Boeing's books. "You can't drive a truck through what's GAAP in aircraft manufacturing," says Heidi Wood, an aerospace analyst at Morgan Stanley Dean Witter & Co. "I think everybody has grown weary of program accounting for a while."

At the moment, though, there are no plans to get rid of the system. That's not a bad thing for shareholders to keep in mind. At a time when investors are seeking the maximum transparency, Boeing is not even close to that standard.

AND WHERE WERE THE AUDITORS?

There's little doubt that Boeing Co. could have done a better job of alerting investors to its 1997 production problems. But how much responsibility should be heaped on the company's auditor, Deloitte & Touche?

Tough question. Because most of the auditor's work papers in the case haven't been made public, outsiders can't fully evaluate how Deloitte counseled the aerospace giant. But plaintiffs' attorney Steve Berman, who has seen the sealed documents

Cover Story

in the Boeing suit, says the auditor failed. "Their duty [was] to provide a fair and accurate portrayal of Boeing's financial condition. They didn't do that," says Berman. Noting that the auditor did outside consulting work for Boeing, he adds: "This is another example of a big accounting firm beholden to a key client."

Those are strong words. The fact is, though, that Berman didn't sue Deloitte; he says the 1995 Private Securities Litigation Reform Act makes it too hard to sue auditors. But his decision not to litigate raises the question of whether the case against the firm was as strong as he claims. Deloitte's explanation: It did nothing wrong. "Deloitte & Touche continues to believe that its quarterly review reports and annual audit



LIMITED POWER

Deloitte raised questions, but Boeing wasn't obliged to follow up

report in 1997 were appropriate," the firm wrote to *BusinessWeek*. Deloitte declined to discuss any of the specific documents unearthed in the case.

The truth is probably somewhere in between these two extreme views. The key issue is whether Deloitte should have pressured Boeing to take a charge for its production problems in the first two quarters of 1997—before the McDonnell Douglas merger went through. There's little doubt that Deloitte was well aware

of these problems. Plaintiff attorneys cited several work papers indicating the firm's employees questioned the timing of Boeing's write-off of the recognition of cost-saving benefits, and the use of reserve funds.

But the auditor's power to force Boeing to disclose the problems was limited. Accounting firms sign off only on annual audits. Since Deloitte was not required to lend its signatures to Boeing's first two quarterly financial disclosures during 1997, it did not have the leverage to force the company to make any adjustments. But it may still have had some responsibility to shareholders. Statement of Accounting Standards 71 requires auditors working on 10Q quarterly disclosure to

force their clients to tell investors about new material information—or to resign.

Determining whether Deloitte ran afoul of SAS 71 would probably have taken a long trial. But University of Michigan accounting professor Eugene A. Imhoff Jr. thinks that, in any event, "Deloitte should have done more sooner." That's a refrain more auditors are starting to hear.

By Stanley Holmes in Seattle and David Henry in New York

Software quality ↑ 80%
Developer productivity ↑ 300%
ROI ↑ 1400%

Reduced time to market
Increased developer productivity
Reduced cost of ownership



Less "damn lies and statistics," you say? Some of our customers used to be cynical, too. Before they were customers. But then they started sending us these numbers. Telling us that the results of using our best practices, integrated tools and services exceeded their expectations. Cutting test time, decreasing development cycles and reducing bugs. Freeing their teams from the obstacles that hinder software development. Need more evidence? There's plenty available at www.rational.com/customersuccess4

be liberated



BANKING

WHO'S GETTING HURT BY THE LOAN DROUGHT

Small companies are shut out. Big ones face higher costs

Last Nov. 8 was a red-letter day for Tennessee oil and gas producer Tengasco Inc.: It had secured a \$10 million credit line. Although Tengasco had lost money for the past two years, Bank One Corp. was willing to bet on it. The Knoxville-based company was expected to be profitable in 2002. The line could even be upped to \$35 million, depending on Tengasco's results.

How things have changed in five months. On Apr. 5, Tengasco Chief Executive M.E. Ratliff got much less pleasant news from the bank. In a letter, Bank One said it was slashing the loan amount to \$3.1 million after the value of the company's oil and gas re-

serves was revised downward. Worse, the bank wanted the \$6 million balance back in 30 days. That set off a devastating chain of events, Ratliff says. Tengasco's auditors worried publicly—in the company's 10-K filing with the Securities & Exchange Commission—about its ability to survive. Tengasco's stock, already on a slide, tanked nearly 50% in just five days. That's when Ratliff, who says he paid nearly \$200,000 in fees to arrange the loan, got mad. "The spirit of our agreement has been totally breached, and it's been devastating to our company," he says. So much so that Ratliff is suing Bank One for \$151 million.

Bank One, which is fighting the suit,

won't comment on specific customers. But it has been pulling back its loan portfolio for some time. "We still have some companies where the risk profile deteriorates, and we are dealing with them on a case-by-case basis," says John E. Neal, managing director of the corporate bank.

The dreaded market drought is here. After leeching record amounts in 2000 and 2001, bankers have drawn their purse strings tight. At the end of April, outstanding commercial and industrial loans were off more than 7% from their February, 2001, peak (excluding commercial paper—short-term loans that companies use to smooth cash flow—is even easier to get. Volume dropped every month between December, 2001, and April 2002, to \$1.35 trillion, 20% below the peak in November, 2000.

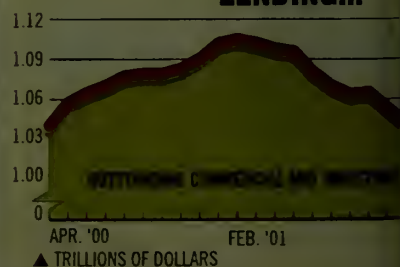
Bankers have no tolerance for bad news from borrowers. That's why companies like Tengasco are seeing no more.

"Bankers are taking out the heavy artillery, sooner," says Henry S. M. head of global restructuring at Dener Kleinwort Wasserstein.

Small to midsize companies are particularly vulnerable, says Peter "O" Vandenberg Jr., a managing director at Trivest Inc., a Miami private equity firm. Just a year ago, big lenders were making cash-flow loans as small as \$5 million. Now they won't lend less than \$35 million, shutting out smaller companies. In the late 1990s, many banks overextended such borrowers and lost money when the economy turned, Vandenberg says.

Craig Ehrnst, treasurer at work compensation management outfit Holdings Inc., a privately held company based in Boca Raton, Fla., says it has paid him three times longer than usual.

BANKS HAVE SLASHED LENDING...



FASB: REWRITING THE BOOK ON BOOKKEEPING

Will broader, simpler rules prevent future Enrons?



In the memos that have poured out of federal investigations, the tug-of-war between Arthur Andersen LLP and Enron Corp. is clear. Time after time, Enron would seek creative accounting for some joint venture or special-purpose entity. Some Andersen accountants would resist, arguing in many cases that the deal didn't serve any legitimate business purpose: "In effect, nothing was accomplished in this transaction but a sale of future revenues," Andersen partner Carl E. Bass wrote in a Mar. 4, 2001, e-mail.

But the bottom line was always clear: If Andersen couldn't show Enron a specific rule prohibiting what it wanted to do, Enron would do it.

Now, the mandarins who write accounting rules want to change that dynamic. The idea: slash the 100,000-plus pages of rules that define "generally accepted accounting principles" in favor of

THE HERZ MANIFESTO

"Auditors will have to stand tall, and the SEC will have to stop second-guessing," says the new chairman

broader, simpler statements of what accountants are supposed to look for when they review, say, a lease or a hedging transaction.

Advocates—led by Securities & Exchange Commission Chairman

Harvey L. Pitt—say a return to simpler standards will paint a clearer picture for investors. The move will allow auditors to focus on whether the bookkeeping for a deal makes good business sense. It also will put the burden on corporate clients to prove that their aggressive accounting meets the standard. "What we've got now," says Robert K. Herdman, the SEC's chief accountant, "invites Wall Street and others to create transactions that dot every 'i' and cross every 't,' but violate the intent of the rules and fuzz up what's really going on."

The task of overhauling accounting's rulebook falls to Robert H. Herz, a

his company's \$55 million financing from three banks. Despite a 25-year relationship, he had to lean hard on to get the money. Renewing a \$35 million revolving credit line was even difficult. Ehrnst says ultimately told his bankers he would pull all other business. He finally got one to commit—but to a loan 40% more than he wanted.

Larger companies with top credit ratings can always sell bonds—though interest rates and fees are higher than loans. In the first quarter of this year, total bond issues were \$197 billion, nearly 70% from a year ago (chart). Smaller companies and bigger ones can't tap the bond market are turn to nonbank lenders, like General Electric Capital Corp. Not only do such lenders charge higher interest rates, they often impose harsher terms. They require companies to put up assets as collateral, something many banks require if a borrower's cash flow is weak. And they may subject companies' finances to more scrutiny.

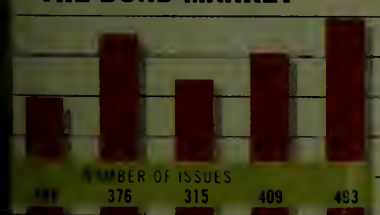
In fact, the credit crunch has been a bane for such financing companies. United Parcel Service Commercial, the lending arm of the shipping giant, saw package-related revenues rise 61% in the first quarter of 2002 from the year earlier.

Most banks say the cutbacks reflect a zeitgeist of the chastened business community post-Enron. But even when economic conditions and the business environment lighten up, companies are likely to find that terms remain harsh. That's because consolidation has eliminated some lenders, and many of those that are left have decided commercial lending isn't profitable enough. Explains Chad Leat, head of syndicated lending at Citicorp: "There are just fewer banks out there making commercial loans."

That's bad news for executives like Robert Ehrnst. No matter how much they kick and scream at their bankers, they're not likely to get what they want. And when they go elsewhere, the results will be higher.

by Heather Timmons in New York, Joseph Weber in Chicago

SHING COMPANIES INTO THE BOND MARKET



Data: U.S. Federal Reserve, Thomson Financial

FIXING THE FINANCIAL ACCOUNTING STANDARDS BOARD

How Robert H. Herz and other reformers plan to shake up the much-criticized FASB



SPEED IT UP

FASB has been known to take decades to write a new accounting rule. Herz will set

deadlines to limit the endless staff debates that now bog it down. Rules could pass with four votes instead of the current five.



SET PRINCIPLES

Now, FASB writes a rule for every permutation of an issue. That allows companies to structure

technically correct deals that flout the rules' intent. Herz wants FASB to move to a system based more on principles.



FAIRER FUNDING

FASB depends heavily on voluntary contributions from big accounting firms. Bills the House and

Senate are expected to mandate contributions from the firms and perhaps Corporate America to bolster board's independence.

PricewaterhouseCoopers partner who has just been appointed chairman of the Financial Accounting Standards Board. Herz figures the streamlined approach will speed up FASB's tortoise-like deliberations—such as the 20 years it has spent pondering Enron-style special-purpose entities. Eliminating what Pitt calls “check-the-box accounting” will also put the U.S. more in sync with the rest of the world, where International Accounting Standards that rely far more on principles are rapidly being adopted. The result could be the best of both worlds: Streamlined accounting for the U.S. and a sharp improvement in the meager corporate disclosures common in much of the world.

Even with Pitt's backing, Herz faces an uphill battle. The thickets of rules grew up because companies and auditors want bright lines to tell them what sort of bookkeeping will pass muster with regulators—especially the SEC. Shareholders' lawyers reinforce the demand for precision because companies and accounting firms fear they'll be sued for their independent decisions if earnings are off. Company CFOs “have asked for a lot of this [complexity] because we want absolute double-layered protections against being second-guessed,” says Philip D. Ameen, comptroller at General Electric Co.

It doesn't help that Corporate America often wants exceptions to broad accounting principles. Critics say FASB's nitpicking hit bottom with Financial Accounting Standard No. 133, which governs accounting for financial derivatives and hedging. Launched in 1992, the standard is based on a simple principle: Futures, swaps, options, and other derivatives should be carried on books at their market value. But revaluing derivatives every quarter can create wide and unpredictable swings in corporate earnings. To avoid that, FASB carved out exceptions for hedging deals, forward contracts for materials, insurance policies, and other special cases. “The exceptions are legitimate,” says FASB mem-

ber John M. “Neel” Foster, “but once you start down that path, it's hard to stop.” The result: FAS 133 and its supporting documents weigh in at 800 pages—and it's still a work in progress.

Herz hopes to simplify things. One rush project: close the loopholes Enron used for its special-purpose entities (SPEs). Enron was easily able to move losing investments and hefty debts into



“We should be aiming for convergence” between American and global standards

SEC CHIEF ACCOUNTANT HERDMAN

SPEs—partnerships controlled by its own executives—because a narrow rule required outsiders to put up only 3% of an SPE's capital. The new proposal, expected by the end of May, generally will require that outsiders provide at least 10% of an SPE's capital—but “10% will not be a bright-line test,” says FASB member Edward W. Trott. Instead, the new rule will require that an SPE prove

it's truly independent of its sponsor company.

To institute broader reforms, all have to step up to the plate, Herz. “Companies will have to show real substance of their business, and will have to stand tall, and the SEC will have to stop second-guessing.” For Herz will concentrate on streamlining FASB's upcoming rules on revenue recognition and financial instruments.

Unwriting the complex rules already on the books poses a bigger challenge. “It's almost necessary to start from scratch,” says GE's Ameen. But, he adds, “the opportunity to do that may come with the International Accounting Standards Board.”

The global rules take a more “brush approach”—just as Pitt and Herz want in GAAP. U.S. accountants and auditors have long derided the decades-old process of writing a single international handbook for financial reporting. In trying to merge different approaches, the global rules permitted so many variations that they could hardly be called standards. But that's changing, as the London-based International Accounting Standards Board eliminates many exceptions. The new IASB standard on inventory, for example, will be stricter than U.S. rules.

American GAAP may still provide more disclosure for investors, but it makes that argument harder to win. “There's plenty of room for compromise,” says the SEC's Herdman. “We should be aiming for convergence between U.S. and global standards.” In 2005, he says.

Changes won't come easily. Tens of thousands of lawyers swarming over the remains of Enron and Andersen certainly don't offer much encouragement to CFOs and their auditors to take on risk in deciding how to get their books right. Wiping out Enron's I-dare-you-to-stop-me approach will require more than a rewrite of the accounting rules, but it's a good place to start.

By Mike McNamee in Washington with Kerry Capell in London

WALLOUT FROM FINANCING

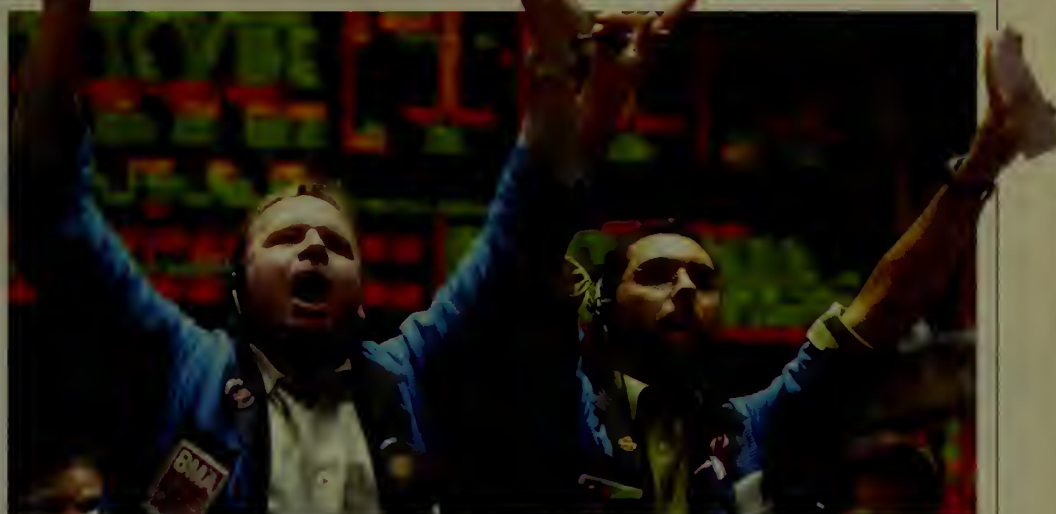
Homeowners chase low rates, bondholders get caught in cycle of volatility

American home-financing is a marvellous machine. Thanks to a huge market for mortgage loans, the U.S. has the highest percentage of home ownership of any major economy—68%—behinds. Mortgage bankers are so confident that almost anyone can refinance when interest rates fall and put money in their pockets. So they did just that over the past 18 months that they probably saved the industry from a major downturn. Some 100 million of mortgages were refinanced since January, 2001.

But the opportunity to pay off mortgages early carries a little-noticed cost: it is growing with each additional mortgage. Refinancings are making a mess of the financial system—the market—a riskier place, with the price movements in 15 years. The danger is that the very investors who make mortgage money so available will be hit with crippling losses from falling prices, threatening their traditions and roiling the markets.

The reason is the size and nature of the mortgage market. Mortgage loans, which are bundled and traded as debt securities, now make up nearly 40% of the bond market, dwarfing even U.S. Treasuries. To banks, insurers, and pension funds, they offer long payment streams over the life of the mortgages—typically 30 years. Government-sponsored mortgage companies such as Fannie Mae and Freddie Mac are big players, too. Sure, these players assume some mortgages will pay off early

as homeowners refinance or sell. But if interest rates make sharp moves, their estimates go out the door. When falling rates trigger a wave of refinancing, institutions must replace the income from retired mortgages by buying U.S. Treasuries, which will continue to



HOW THE MORTGAGE MARKET AFFECTS BONDS

- 1 Homeowners take out fixed-rate mortgages that include the option to repay early.
- 2 Lenders package mortgages into securities and resell them. Mortgage-backed securities are now nearly 40% of the bond market.
- 3 Financial institutions buy them for the long streams of homeowners' payments. If homeowners refinance, those payment streams dwindle.
- 4 Interest rates fall, and homeowners refinance.
- 5 Institutions rush to replenish the stream of payments by buying 10-year Treasury bonds.
- 6 The Treasury buying pushes up bond prices, simultaneously depressing interest rates.
- 7 Lower interest rates stimulate more mortgage refinancing, and the cycle continues.

pay. If they don't act quickly, their portfolios could sink even lower. The problem: This buying drives up bond prices and pushes down yields and mortgage rates—triggering more refinancing and exaggerating the move. "As interest rates are falling, everyone holding mortgages [securities] needs to go back and square up by buying something," says Daniel J. Ivascyn, portfolio manager at Pacific Investment Management Co. (PIMCO), which holds over \$100 billion in mortgages and related instruments.

Rising interest rates trigger volatile trading, too. When rates go up, institutions sell their mortgage securities so that they won't be stuck with lower payments than they need to offset their liabilities. That's the problem that clobbered the savings and loans in the '80s.

Bond-market volatility—measured by the fluctuation between daily highs and lows—is at its highest since 1987, says market analyst James A. Bianco of Bianco Research. Daily swings for 10-year Treasuries were even wider the past 12 months than in 1998, when Long-Term Capital Manage-

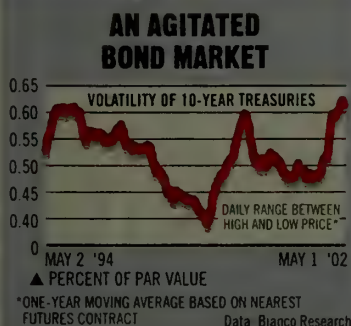
ment collapsed, and during 1994's interest-rate surge.

Why does volatility matter? For one, it raises transaction costs for corporations and investors going to the market. Sellers have to take lower prices; buyers pay higher prices than they otherwise would. A larger concern is the increased chance that a big institution will suffer crippling losses if, in these wild markets, rates move more than their models predict. In 1994, \$600 million Askin Capital, a hedge fund that was trading mortgage securities, collapsed as rates climbed.

Bianco says Fannie Mae and Freddie Mac could cause real trouble. Their portfolios total \$1.2 trillion, more than half the value of Merrill Lynch & Co.'s mortgage index. They hedge the majority of their risk, which means they pass it on to others. Freddie Mac's chief investment officer, Gregory J. Parseghian, says he uses outside experts to double-check his portfolio. "We have appropriate humility [about] all of the ways that you can be wrong," he says.

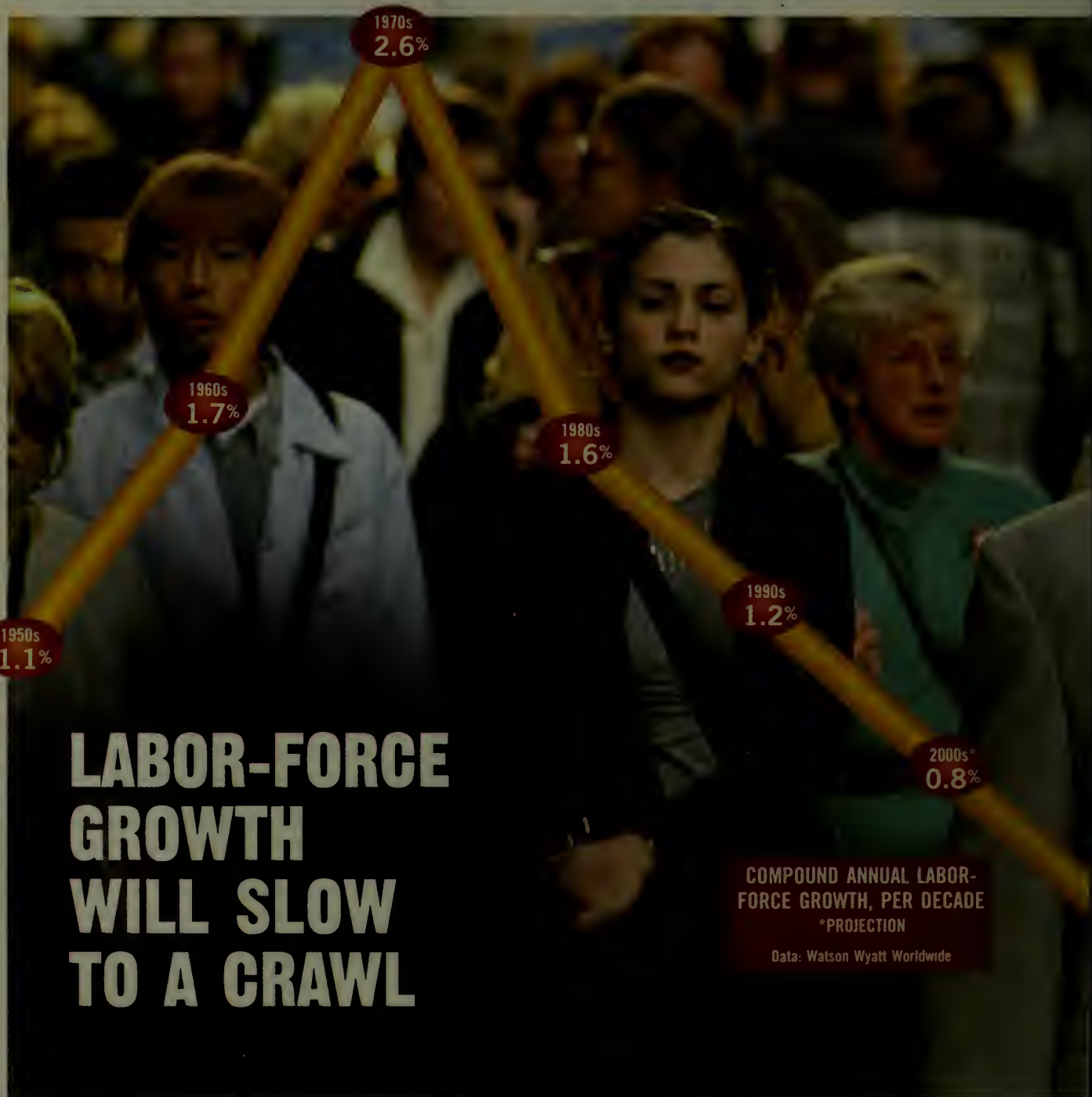
Perhaps Fannie, Freddie, and other institutions will avoid a wipeout. Even so, when bond investors take a hit from a sharp price move, they know who to thank: the American homeowner.

By David Henry in New York



TOO MANY WORKERS NOT FOR LONG

Employers face a wrenching manpower and skills shortage



eg Brubaker can't get relief—not from the spike in unemployment that began last year or even from the many layoffs in New York after September 11. She still can't find enough workers for the 15,000-employee New York Presbyterian Hospital, where she's vice-president for human resources. Skilled jobs are the toughest. To hold on to \$50,000-a-year ultrasound and X-ray technicians, she has hiked pay twice in the past year, a total 6%, on top of annual merit-pay increases. Histotechnologists, who are paid about \$43,000 to do tissue exams, got extra salary adjustments totaling 13%.

scarce are employees who can do such jobs that Brubaker recently threw in \$10,000 in employee tuition assistance, up from \$2,000, for anyone who will go back to college in these fields. Her hope: that even laundry and other skilled hospital workers will switch careers. "All the hospitals and pharmacies were stealing employees from each

other, even in a recession, so I'm hoping this will stimulate the supply," says Brubaker.

Most employers aren't yet facing such a squeeze. Any economic resurgence beyond the first quarter remains uncertain, and the U.S. has a ways to go before the labor markets return to their tight-as-a-drum levels of the late 1990s. With the jobless rate hitting an eight-year high of 6% in April, only a few companies are scrambling for help—mainly in a handful of hot industries such as health care and construction.

Focused as they are on today's problems, most companies aren't looking too far around the bend. But when they do, they're in for some big surprises. As the economy strengthens, say demographers and economists, labor shortages will come roaring back. What's more, they're likely to persist for years, even decades. The reason: a looming crunch that will hit as huge numbers of boomers retire and fewer new workers fill the pipeline. With more than two-thirds of women already working and with immigration at record highs, the growth of the labor force will remain at a crawl for decades to come (charts).

The prospect of more or less permanent labor shortages could set in motion profound changes in American business and society. Three decades of plentiful workers have given Corporate America great leeway to shape employment to its needs. But soon, the balance of power will shift to workers, forcing employers into wrenching adjustments.

The late 1990s may well have been a foretaste. Remember all those pay raises and hiring wars? The new day-care centers, flexible work hours, and training programs for welfare moms? Get ready for a replay. "If employers thought the '90s were the decade of the worker, the next decade will be even more that way," says Harvard University economist Dale W. Jorgenson.

America's famously nimble employment system will come under mounting pressure. Today, employees shift from job to job and shoulder much of the responsibility for a career that isn't tethered to one company. Relatively fluid labor markets help boost productivity and profits, economists believe, by channeling labor to companies and industries with the most promise. But if companies become hard up for labor, managers will try to hang on to workers the way they did in the 1950s and 1960s. Employers may feel the need to rewrite pensions and early-retirement plans to keep aging boomers. Indeed, Americans' entire view about when to retire could alter if companies encourage longevity on the job.

The effects could go deeper, too, shifting workplace and societal attitudes in the process. Diversity efforts, always slow to bear fruit, could take on new urgency as employers discover they can't rely so heavily on the native

PRIME-AGE EMPLOYEES WILL BE SCARCE....

GROWTH OF
25- TO 54-YEAR-
OLD LABOR FORCE
IN MILLIONS

■ 1980-2000
■ 2000-2020



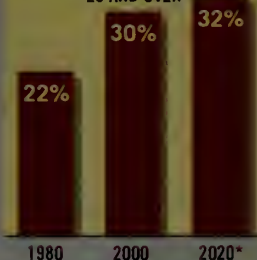
NATIVE-BORN
WHITES

ALL*

*INCLUDING MINORITIES AND IMMIGRANTS

...ESPECIALLY COLLEGE-EDUCATED ONES

PERCENT OF LABOR FORCE
WITH A COLLEGE DEGREE, AGE
25 AND OVER



*ASSUMES COLLEGE GRADUATION RATE REMAINS AT 2000 LEVEL OF 29% OF ALL 30-YEAR-OLDS

Data: David T. Ellwood, Harvard University



Social Issues

white labor pool, which will shrink by 8 million through 2020, according to demographic projections by David T. Ellwood, an economist at Harvard University. He has analyzed the trends for an upcoming study of the labor-shortage outlook by Colorado's Aspen Institute, a group of business and political leaders. Immigration, too, could become a less divisive issue as the need for workers becomes more acute.

College-educated workers may be the most coveted. So school reform may gain even more political currency than it has today. The states and Washington could feel growing pressure to allocate more money to education, including more financial aid to poor students. Job-related training could see a big boost as well. If employers can't find enough skilled employees in the U.S., they may shift more white-collar jobs abroad or push the federal government to expand the H1(b) visa program again. Warns James E. Oesterreicher, a former chairman of J.C. Penney Co. who helped prepare the Aspen Institute study: "The U.S. faces a worker gap and a skills gap—and both are right around the corner."

An important swing factor, of course, is productivity. Some economists making projections decades out assume a 1.5% productivity-growth rate—the average over past 30 years—and conclude that the U.S. could be short by as many as 10 million workers by 2010. But assume higher productivity growth, and some of the bottlenecks ease up. If the U.S. manages to hold onto today's 2% annual productivity growth over the long run, some estimates of the labor shortfall over the next decade drop to 3 million. The rosier scenario paints a picture of strong economic growth with high productivity, which would make it much easier to handle any imbalance in the labor markets. In that case, "we could get a virtuous circle," says Paul S. Hewitt, principal author of a two-year study on global aging released in March by Washington's Center for Strategic & International Studies. Still, there's no guarantee. High productivity and labor shortages can co-exist: Jorgenson and others point to the fact that the worst U.S. labor shortages of the past century came in the late 1960s and 1990s, both eras of strong productivity growth.

No matter which economic projections come true, the demographic challenges ahead are inescapable: There will be a sharp slowdown in the number of people entering the workforce. Since 1980, the U.S. workforce exploded by 50%,



TRAINING

Bank of America, worried about long-term demographics, never let up on its welfare-to-work effort

CHILD CARE

Companies will need to help women with on-site day care and a backup arrangement when kids get sick

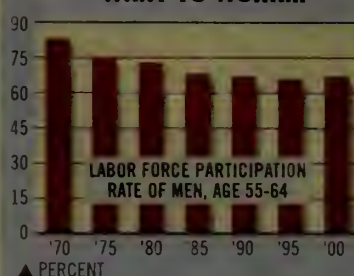
adding some 38 million people as baby boomers hit prime and as women flooded into the workforce. Now, boomers are aging and nearly 80% of women hold jobs side the home. By 2020, the labor force is set to grow 16%, adding fewer than 20 million new workers, according to Ellwood's projections. And that's assuming immigrants continue to pour in at the record high pace of recent years.

Labor-force growth began to slow in the 1990s, posting average yearly gains of 1.2%, about half the pace of the 1980s but still equal to the increases of prior decades. Now, according to consultant Watson Wyatt Worldwide figures that the growth rate will drop to a 0.8% annual rate over the next decade and then gradually slide to a mere 0.2% a year for as long as one can predict.

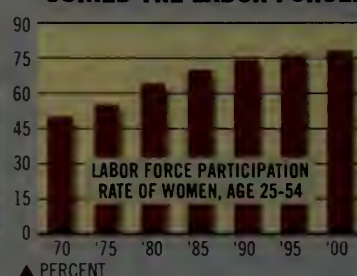
Employers could be so strapped for help that they are themselves radically redesigning American work habits to attract more people into their ranks (table). For one thing, older workers could suddenly take on value as a brimming pool of labor.

As the ranks of men 55 and older will swell by a third, or 20 million, by 2020. As life expectancy lengthens and with Americans staying healthier longer, employers and government may try to entice more of them to put off retirement. Proposals to postpone Social Security retirement age, to 70 years old, are cropping up in policy circles. Companies

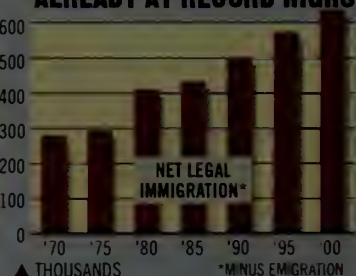
FEWER OLDER MEN WANT TO WORK...



...MOST WOMEN ALREADY HAVE JOINED THE LABOR FORCE...



...AND IMMIGRATION IS ALREADY AT RECORD HIGHS



Data: David T. Ellwood, Harvard University, Social Security Administration



likely scrap plans that encourage retirement in the mid-50s and build in incentives to stay on.

Rewards will need to be high. Already, 68% of men 55 and older are working. That figure would have to jump to 74% by 2010, according to Watson research director Sylvester J. Watson, to add just 1 million more men to the rolls. Ultimately, "what will win out, [greater incentives to work] or the desire for more leisure?" asks Steve Goss, chief actuary at the Social Security Administration, whose labor force projections mirror the studies by Watson and others.

Encouraging more women working might seem to hold the promise in terms of sheer numbers. The share of women who join the workforce has climbed steadily, from 43% in the early 1960s to 77% today. Every percentage-point increase beyond would mean 1 million more workers by 2010, Goss calculates. What's more, many nonworking mothers are well-educated and have college degrees, so they would go a long way toward solving skills shortfalls.

Young women coming out of school now are entering the workforce at a lower rate. To lure more of them into a job, employers may have to offer everything from more flexible hours to part-time work to on-site day care and sick-child backup. "For most of our life times, people have worked the way their employers wanted them to," says Oesterreicher. "Employers will have to become more flexible."

One relatively untapped source: the low end of the labor market, especially less-educated women. In Colorado Springs, the Broadmoor Hotel has about 200 openings out of a workforce of 1,500. Among the toughest to fill are housekeeping and laundry jobs—low-skilled work that nonetheless pays up to \$10 an hour in that neck of the woods. "We offer all the benefits even to our part-timers, and we're now doing market surveys to see if we need to raise wages again,"

says human resources director Cindy E. Clark.

One solution is to hire right from the welfare rolls, which was popular in the late 1990s. Bank of America never stopped doing so, in part because it's worried about long-term demographic shifts. The company set up a partnership with Goodwill Industries International Inc., which trains welfare recipients and others for such jobs at BofA as cashiers and tax processors. BofA has hired some 5,000 people this way since 1998 and still brings in 150 a month. "We're mindful of the labor-shortage projections and see these populations as continuing to provide us with a wonderful source of labor and higher retention rates," says Karen B. Shawcross, a BofA senior vice-president.

Corporate America's biggest difficulties, though, will come at the high end of the labor market. The number of workers with a college degree has more than doubled since 1980, to 40 million, lifting the share of workers with a BA from 22% to 30%. Even so, the rapid expansion of supply barely kept pace with demand. Wage hikes for college grads beat inflation by more than 2% a year in the late 1990s, according to the Economic Policy Institute, a Washington think tank.

So far, the economic slowdown hasn't changed the picture much. High-end workers still won inflation-adjusted pay hikes of around 2% or so in 2000 and 2001. Even in the ravaged market for tech workers seems to be turning around. The high-tech workforce fell by 5% last year, to 9.9 million, according to a survey of 532 companies released on May 6 by trade group the Information Technology Association of America. Now, employers say they expect to hire 15% more tech workers this year as the economy rebounds. At the Treasury Dept., about 11% of its 9,500 information-technology workers are currently eligible for retirement, a figure that will jump to nearly one-third by 2008, says Dagne Fulcher, who manages workforce programs. With pay often higher on the outside, Treasury has been doling out retention bonuses of up to 25% of pay to hang on to its techies.

Finding enough college-educated workers will be tough if the demand for skilled labor continues at the pace of the past

REELING 'EM IN

In the new world of chronic labor shortages:

EMPLOYERS MAY HAVE TO

- Offer more flexibility to working mothers and more help with child care and other parental needs
- Entice older workers to retire later or return to work
- Step up diversity programs to bring in more minorities
- Recruit and train hard-to-place workers such as welfare moms, people with disabilities, and former prisoners
- Hike spending on training and education
- Offer such compensation as stock options, that increase loyalty

GOVERNMENT MAY HAVE TO

- Allow more immigrants, especially skilled workers
- Step up national investments in schools
- Expand the school day and offer national pre-K
- Subsidize child care, especially for low-income families
- Shift college aid from the middle class to poor and minority students
- Alter laws governing pensions to discourage early retirement

two decades. For one thing, the echo baby boom simply isn't large enough. At 64 million people, the generation that started hitting college in 1998 is 8 million larger than the prior Gen X cohort. But the boomers numbered 76 million. So even if more of their kids go to college, the ranks of graduates won't grow as rapidly. "If we could jack up enrollment rates, we would come a lot closer to meeting the demand for skilled labor. But that's a tall order," says Anthony P. Carnevale, a training expert at Educational Testing Service who has written on future workforce-education needs.

Indeed, many Gen Yers may not be able to make it through college even if they want to. About 85% of the growth in 18-to-24-year-olds will come from minority and immigrant families over the next decade, according to Census Bureau data. More than 40% will come from low-income families. Many of these students are already caught between rising tuition and shrinking financial aid. Federal Pell grants, which go to poor students, now cover only 57% of the cost of a public four-year college, down from 98% in 1986, according to a report by the National Center for Public Policy & Higher Education, a nonprofit group. State help for needy students has fallen by similar amounts. So today, college tuition consumes fully a quarter of low-income families' annual income, vs. 13% in 1980, the study found. Already, college enrollments have slumped by nearly 2% since their peak in 1998. "It would be almost impossible to match the skills increases of the past 20 years," says Ellwood. "If you believe that technological change isn't going to slow down, we're not going to have enough college-educated workers to meet the demand."

While a slower-growing workforce presents tremendous hurdles for the U.S. and the rest of the industrialized world, it brings opportunity as well. The supply of workers is growing more slowly because the overall population is reproducing at a lower rate, too. So living standards may rise even if worker scarcities slow economic growth somewhat, simply because there will be fewer extra people over whom to spread the national income.

A somewhat slower growth rate would also mean less pollution, less suburban sprawl, and less pressure on the environment. Of course, if the economy eases too much, there wouldn't be enough output to keep pace even with a slower-growing population. But if the workforce and the economy rise in tandem, the country's shifting demographics could end up as a blessing as well as a challenge.

By Aaron Bernstein in Washington

Information Technology

TELECOM

NEW HONCHO, NEW AT&T?

David Dorman's big plans may not save the phone giant

It's hard to understand why anyone would want to run AT&T these days. The telecom giant's intractable problems have damaged the reputations of every AT&T leader in recent memory, especially current CEO C. Michael Armstrong. And the job is only getting tougher. AT&T spun off its most promising operation, AT&T Wireless Services Inc., earlier this year. Then, Armstrong cut a deal to merge AT&T's cable-TV business with Comcast Corp. that is expected to be completed later this year. That will leave the new AT&T looking a lot like the old AT&T—primarily a long-distance company with revenues projected to drop 12% this year, to \$37 billion.

Who wants the job? Not Armstrong. He's jumping ship to become chairman of Comcast (page 26). The odds-on favorite to replace him is David W. Dorman, AT&T's current president. The 48-year-old was named to AT&T's board earlier this year, in a move that company insiders and analysts say signals that a promotion is likely. The question is whether the former CEO of Pacific Bell, the phone unit of Pacific Telesis Group, can be anything more than a caretaker until AT&T is scooped up by Verizon, SBC, or BellSouth. The betting is that Dorman will have to sell out for chump change shortly after he takes over. "The case for what will be a stand-alone AT&T communications business will be a hard one to make," says analyst Adam Quinton of Merrill Lynch & Co.

Dorman is intent on proving his skeptics wrong. With Armstrong effectively a lame duck, Dorman is moving ahead with his strategic plan for restoring AT&T's luster. He declined to comment for this story, but *BusinessWeek* pieced together his strategy from interviews with other AT&T insiders. Most critical, Dorman plans to take AT&T upmarket, positioning it as a premium communications

service for businesses and affluent consumers. It's a risky strategy to AT&T smaller but more profitable. Rather than compete solely on price, AT&T will market innovative services at a slight premium to the competition.

That's not just talk. Dorman marked \$200 million last year to establish a new group of 1,500 engineers at Labs that is developing new services for corporate customers. One early offering is a new generation of voice-recognition technology so accurate that business can reduce the number of operator staff. Such cutting edge technology helped AT&T sell bundles of lucrative corporate services to big clients, including Merrill Lynch, MasterCard, and Hilton Hotels & Resorts. "I am willing to pay a premium," says Artie Ahrens, senior vice-president at MasterCard. "You tell me what you pay for."

Dorman knows selling consumer premium phone service will be tough. AT&T's long-distance base has dropped 50 million customers, down from 80 million five years ago. And Dorman is expected to let another 25 million go as the Bells complete their invasion of the long-distance market. The key part of his strategy is to hold on to the mo-

THE CHALLENGES FOR AT&T

AT&T President David Dorman is expected to take over as CEO later this year. Here are the prospects for the company in several key areas, based on a scale of one to four stars.

OBSTACLE

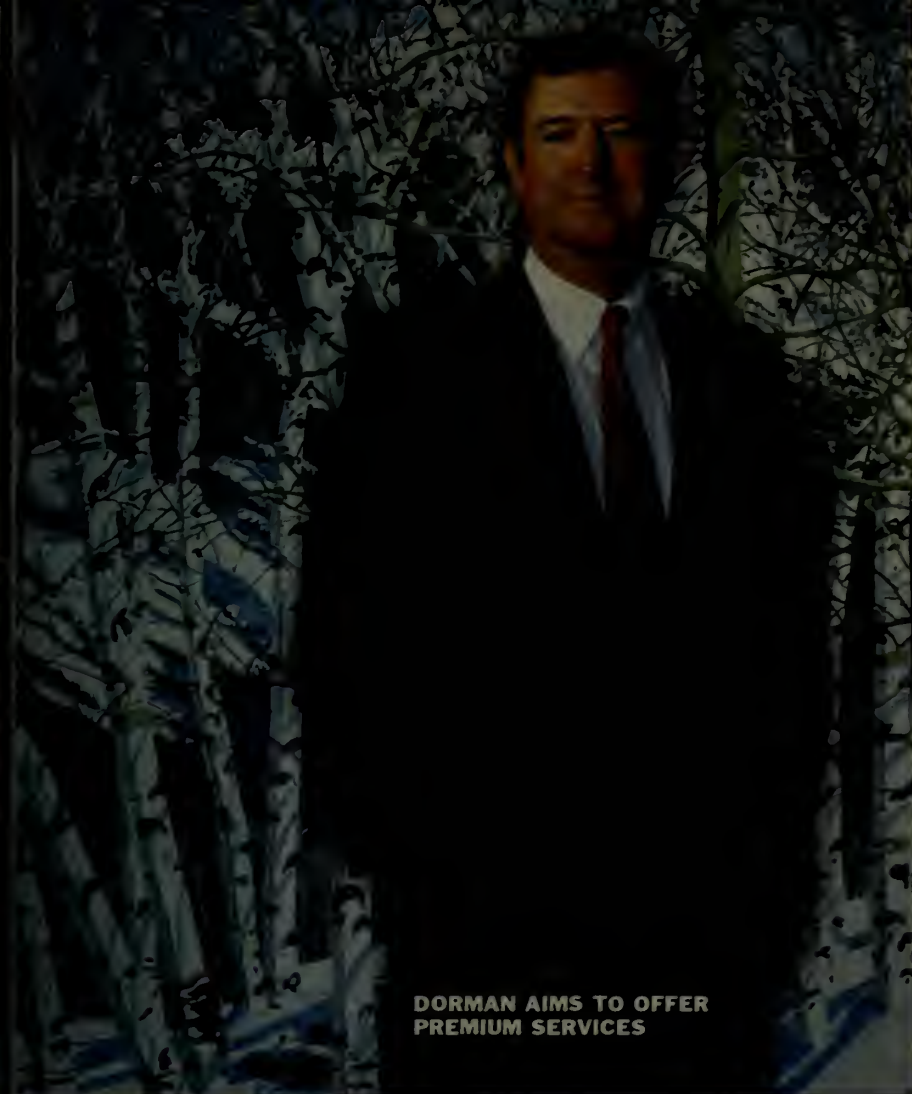
OUTLOOK

RATING

OBSTACLE
AT&T faces a tough battle to retain its long-distance market share. The unit's CEO, Bernard J. Lee, is expected to leave the company. The unit's CEO, Bernard J. Lee, is expected to leave the company. The unit's CEO, Bernard J. Lee, is expected to leave the company.

OUTLOOK
The unit's CEO, Bernard J. Lee, is expected to leave the company. The unit's CEO, Bernard J. Lee, is expected to leave the company. The unit's CEO, Bernard J. Lee, is expected to leave the company.

RATING
The unit's CEO, Bernard J. Lee, is expected to leave the company. The unit's CEO, Bernard J. Lee, is expected to leave the company. The unit's CEO, Bernard J. Lee, is expected to leave the company.



DORMAN AIMS TO OFFER PREMIUM SERVICES

e 25 million accounts. To do that, an is retraining all 4,300 of AT&T's ner-service reps so they'll be more nsive. He's also developing new es for consumers, including a Web hat will make it a snap for cus- to change their long-distance g plans on their own.

Dorman succeed? The odds are st him. Sure, he has several im- nt factors working in his favor. Af- e Comcast deal is completed, AT&T boast the cleanest balance sheet in the long-distance busi- ness, with \$17 billion in debt. AT&T also has some

growth businesses: Internet services rose 37% in the first quarter and local phone service for businesses grew 17% in the quarter.

All of this pales in comparison with the meltdown in long distance. AT&T's long-distance revenues are shrinking about 20% this year, wiping out \$6 billion in sales, according to Lehman Brothers Inc. This year, all of AT&T's growth businesses combined won't replace even \$1 billion of that lost revenue. Dorman needs to cut costs faster than revenues decline. So far, however, AT&T hasn't been able to do that. Operating earnings from AT&T's phone busi-

ness tumbled 32% in the first quarter, to \$2.8 billion. If revenues and profits keep plummeting, Dorman will have no choice but to sell AT&T within a year or two.

Who's the man stepping into this mess? Dorman is an executive with something to prove. He started off as a young hotshot in telecom, building a stellar career at Sprint Corp. and then becoming CEO of Pacific Bell in 1994 at age 39. Since then, however, he has taken some knocks. He lost his CEO spot when SBC Communications Inc. bought Pacific Telesis in 1998. After that he jumped to Pointcast, a promising start-up that pushed news and other information from the Internet to PCs around the country. When the company ran short of cash in 1999, Dorman couldn't complete a deal for more money and jumped to Concert, a joint venture between AT&T and British Telecom. Then Concert, which was already troubled, collapsed, costing AT&T hundreds of millions of dollars and damaging its credibility with multinational customers.

Now Dorman has another shot at stardom. Taking over AT&T will give him the chance to put the troubles of recent years behind him—and prove himself worthy of all the accolades early in his career. "There's no doubt in my mind that Dave will seize the moment at AT&T," says executive recruiter Dennis Carey of SpencerStuart USA.

Dorman is known for a relaxed management style that may serve him well at AT&T. Armstrong has been faulted for a my-way-or-the-highway attitude that drove out some execs. Already, Dorman is beefing up AT&T's ranks. He hired Betsy J. Bernard from Qwest Communications International Inc. to run AT&T's consumer division and Sprint veteran Chris Rooney to head AT&T's government unit. "Dave is very smart and he knows how to grow a business," says Rooney.

He also can make peace between warring factions. When Dorman arrived at Pacific Bell, tensions were flaring between marketing and networking employees. The marketers had promised fast Internet access to everyone in the San Francisco Bay Area, and the techies were worried the push would overwhelm the network. Dorman got the two sides to cooperate for the first time by holding joint meetings and planning projects. Eventually, the company slowed down its Web rollout so the network didn't get overloaded.

Now, Dorman faces his greatest challenge yet. If he can produce solid results for a few quarters, boost the stock price, and attract a takeover offer at a decent price, he may be considered a successful AT&T chief executive. These days, that would be a rare accomplishment.

By Steve Rosenbush in New York

NT

SERVICES
Moving cut-
back, 1 million
to 70 mil-
lion ago. First-
quarter slipped
to 100,000

Invested
in innova-
tives for busi-
nesses. The
company who sell
phone

MANAGEMENT
AT&T has lost top man-
agers, in part because of
Armstrong's controlling
style. The business ser-
vices unit has had five
leaders in five years.

Dorman is regarded as a
team builder. He has re-
cruited top talent from
outside the company, in-
cluding Sprint's Chris
Rooney to run AT&T
Government Markets.

DEBT
With so many telecom
bankruptcies, investors
worry about AT&T's debt
load. Recently, the com-
pany's bonds were trad-
ing at 90¢ on the dollar.

Fears are overblown. The
sale of the cable unit will
drop AT&T's debt load to
\$17 billion. That will
give it a debt-to-earnings
ratio of 1.7, best in the
long-distance industry.



COMMENTARY

By Amy Barrett

HOW DRUGMAKERS SHOULD HANDLE A CAUTIOUS FDA

On Apr. 25, AstraZeneca PLC announced that the Food & Drug Administration was taking longer than expected to review its new cholesterol-lowering drug, Crestor. Five days later, Eli Lilly & Co. delivered similar bad news about its much-publicized erectile-dysfunction product, Cialis. Many other drug companies have been in the same predicament. Now, they're howling that the FDA—lacking a Commissioner since President Bush took office—has grown excessively cautious on new-drug approvals.

Unfortunately for drugmakers, this won't change any time soon. For one thing, complicated health-care politics will likely continue to stall the appointment of a new Commissioner. And even if a chief is named, the process of getting new drugs through the FDA is bound to remain troublesome.

To respond to this new reality, drugmakers must find ways to change their own research operations. And they need to open their wallets to help fund an improved drug monitoring system. Otherwise, stalled approvals will impair profits and prevent them from restocking their already-thin product pipelines. "This [tougher regulatory climate]

can have a chilling effect on how drugs move through R&D," warns William

A. Haseltine, chairman and CEO of Rockville (Md.)-based Human Genome Sciences Inc., a developer of gene-based drugs. "It's like pouring molasses on the whole [system]."

Clearly, the pace of FDA reviews has slowed recently. In the case of standard drugs—those not considered high priority—the average time from filing an application to approval was 19 months in 2001, up from a

low of 13.4 months in 1998. Dr. John Jenkins, director of the FDA's Office of New Drugs, lays the blame partly on resources: The workload has been going up, and funding hasn't kept pace. But industry sources say there's more to it than that. "The FDA has become more risk-

averse," contends Pfizer Chairman and CEO Henry A. McKinnell.

That's easy to understand. The agency is still recuperating from a string of high-profile drug withdrawals over the past several years. One after another, products such as the diabetes drug Rezulin and Baycol, another cholesterol-lowering compound, had to be pulled from the market after patients who used them suffered sometimes-fatal side effects. But Jenkins says those withdrawals

have given the agency more experience in spotting problems such as liver toxicity. Last year, for example, Bayer had to withdraw Baycol after reports of 31 deaths in the U.S. from muscle-related side effect. No wonder regulators are giving extra scrutiny to AstraZeneca's Crestor.

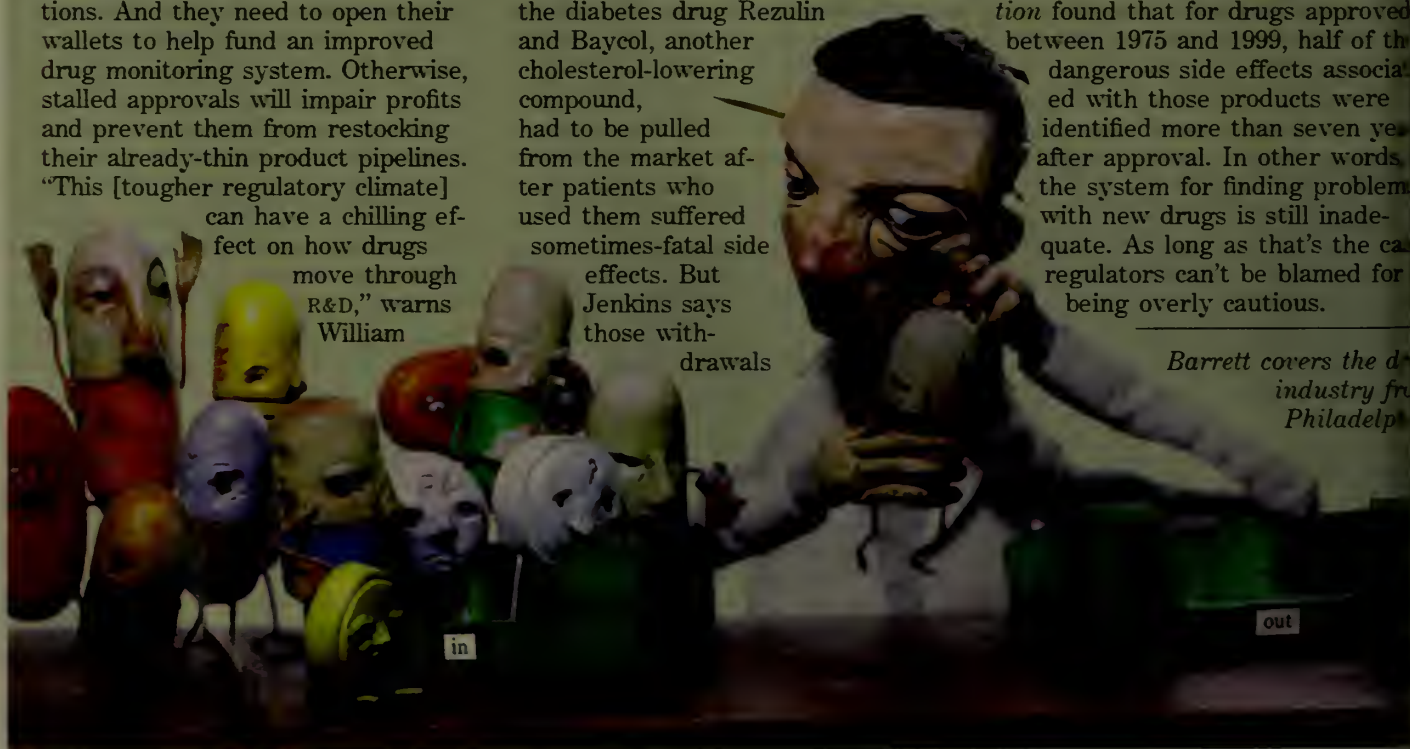
While there is no simple fix to drugmakers' dilemma, certain measures could smooth the process. First, drug companies should hasten ongoing changes in their research operations aimed at weeding out problem drugs more quickly. Pfizer researchers, for example, are using new molecular biology tools to quickly spot and eliminate drug candidates that appear similar to compounds which cause liver or heart problems.

The industry also needs a more robust system for spotting dangerous side effects. Two months ago, the industry agreed for the first time to let the FDA take a portion of the fees it collects from companies and spend the money on surveillance of side effects in newly launched drugs. But that agreement will only cover drugs for two or three years after their roll-out, which is too short. A May paper in the *Journal of the American Medical Association* found that for drugs approved between 1975 and 1999, half of the

dangerous side effects associated with those products were identified more than seven years after approval. In other words, the system for finding problems with new drugs is still inadequate. As long as that's the case, regulators can't be blamed for being overly cautious.

Barrett covers the drug industry from Philadelphia

THE FDA SLOWS DOWN AGAIN



F

THE PGA TOUR: HERE'S THE GREEN?

Corporate backers are shying away as sponsorship costs rise

A \$7.5 million Genuity Inc. spent to sponsor the PGA Tour event at Miami Doral Golf Resort & Event this past March paid a small price to pay. For the Woburn (Mass.) telecommunications giant, the chance to fete fans and build public goodwill for its services. Ernie Els fending off a charge by Tiger Woods, a win for the Genuity Championship doubled from prior year, while attendance rose 30%, to 125,000—drawing hundreds of Genuity clients who were also invited to a talk by ex-Gen-Electric Co. Chairman John Welch. But six weeks after the struggling Net giant opted not to sponsor next year's event. In the GTE Corp. spin-off, Genuity will depend on smaller, more focused programs, says Jim Genuity, the chief marketing and strategy officer. Recently, the PGA Tour is struggling to maintain Corporate America's support. The tech collapse has sponsors such as Genuity feeling less flush, rising sponsorship fees are also causing many to drop out. Sponsorships for 2002 are booked but the PGA is scrambling to find sponsors for 2003. As of early May, 12 of regular tournaments were without sponsors, with such longtime patrons as Anheuser-Busch, Wyeth, and Canon USA out and others, such as Federal Express, on the fence. Says Scott Seymour, senior vice-president for golf events at New York sports marketer Octagon: "The stakes are so much higher because of rising costs of TV and purses." Indeed, much of the sponsor fade-out is linked to a rich TV-rights package the tour sealed with the three major networks, ESPN, USA Networks,



CORPORATE AUSTERITY 12 of the 42 PGA tour events are without sponsors for 2003, as companies such as Canon and Genuity cut back on large-scale sports deals.

SENIORITIS The Senior Tour this year cut the number of events from 38 to 35, an acknowledgement that the pool of corporate sponsors wasn't as deep as expected.

RIVAL TOUR? Sponsors of the proposed Major Champions Tour are hoping to launch an eight-event mini-tour in 2003. It would feature 20 top pros and compete head-to-head with the PGA Tour.

Data: BusinessWeek

and the Golf Channel last year. The four-year, \$850 million deal boosts the tour's TV revenues about 50%, starting in 2003. But it also heaps financial strain on title sponsors, whom the tour requires to spend heavily—some 50% of their total bill—on TV commercials that air during their tournaments. "The PGA has always aligned its corporate-sponsorship agreements with its TV contract, and [the pressure on sponsors to underwrite the TV-rights deal] couldn't have come at a worse time," says Seymour.

For their part, PGA Tour officials attribute the cancellations simply to a sluggish economy. "We obviously have a difficult economic environment, and it's

not unusual for our sponsorship to change," says the PGA Tour's chief of operations, Henry Hughes, who expects to unveil several new sponsors for the 2003 tour in coming weeks.

But marketing experts say the backpedaling by sponsors may signal a market glut. Already, the Senior PGA Tour, which has seen thinning attendance as stars such as Arnold Palmer play less and less, has cut out three events. And some say sponsor fees

on the flagship tour are causing sticker shock. Says Rick Burton, a University of Oregon sports-marketing professor: "The PGA rights fees have gotten extremely high, so much that the executives

TIGER IN A TOURNEY:
Still, sponsors balk

at the sponsoring companies are asking themselves, 'What's our return on this?'"

Thanks to the one-two punch of costlier TV ads and rising tourney purses—the take at Doral, for instance, has soared from \$1.8 million to \$4.7 million since the mid-1990s—the average cost of a title sponsorship, now \$4 million, could hit \$6 million to \$8 million by 2006. As a result, some longtime sponsors are seeking alternatives. Anheuser-Busch Cos. dropped its sponsorship of the PGA Tour event in Kingsmill, Va., but quickly agreed to underwrite an event on the LPGA Tour, where fees run about a third of those on the men's tour. Even General Motors Corp.'s Buick Div., which sponsors three PGA Tour events, will bow out as the sponsor of the Callaway Gardens (Ga.) event after this year and instead will underwrite a nationwide amateur tourney called the Buick Scramble.

Ironically, the PGA Tour has one other little problem: Tiger mania. While sponsors are only too happy to hitch their name to the 20 or so events a year that Woods is guaranteed to play, they are less willing to fork over hefty sponsorship fees for the Tigerless tourneys, which usually turn in much weaker TV ratings. These days, a Tiger in the tank may not be enough for the PGA Tour.

*By Dean Foust,
with Brian Grow, in Atlanta*

The Financial Lubricant of Free Enterprise

Insurance

IMPROVING THROUGH INNOVATION

Did you know that for the last two years the insurance market in Russia has had back-to-back 50% increases. Why? Because what was state property is now becoming individual private property and people want to protect their new freedom to own.

Without insurance we would be reluctant to:

- Drive a car (What if I have an accident?)
- Own a home (I'd be devastated if it burned down.)
- Get married, have children or not... (I might become disabled, I will grow old and die.)

We may not realize it but we really love insurance. It makes you free to be you, to earn a living, to own property and to protect that property.

- Liability Insurance
- Disability Insurance
- Life Insurance
- Long-term Care Insurance
- Annuities

LIABILITY INSURANCE

What is the hottest thing in Home-owners, Renters and Auto Insurance?

It is Liability Insurance!

Why? The liability insurance under those policies may be inadequate to do the job. The answer is an Umbrella or Comprehensive personal liability policy because it:

- Provides lots of additional protection at low cost.
- Fills in missing areas in the other policies like certain liability exposures not covered under those policies such as personal injury, invasion of privacy, and liability for any property borrowed and in your care, custody or control.

DISABILITY INSURANCE HAS CHANGED

Disability insurance has gotten more focused on loss of income rather than loss of ability. Many more people lost various abilities over time than lost income and loss of ability policies became very expensive. Disability policies focused on loss of income have become less expensive.

Career women have found this new policy design much more appropriate for their needs and much more affordable. A 1999 Labor Department survey points out that women working outside the home are three times more likely to miss work because of a disability, including maternity leave, than men.

Another aspect of disability insurance that should be investigated by business owners is Disability Overhead Expense which reimburses you for covered overhead expenses that continue during a period of partial or total disability.

Ways for people to reduce the cost of disability insurance:

- Instead of lifetime benefits, choose benefits for a more limited period of time, such as age 65, or even as short as five years.
- Accept a smaller monthly benefit
- Limit the options
- Extend the 90-day waiting period
- Take advantage of all discounts available. For example, getting colleagues to sign up so the employer can deduct premiums from paychecks could save up to 20%.

LONG-TERM CARE INSURANCE (LTC)

Today, a cost efficient and easy way of getting yourself extra coverage those dreaded "what ifs" is employer sponsored LTC plans. They are less expensive, more tax efficient and allow your spouse, parents and children to buy also.

Marriage and Long-Term Care

Marriage, among other things, means the acceptance of another person's liabilities. You probably have a friend or relative who has been a caregiver to a spouse and is now a survivor. Someone new comes into his or her life and they are, once again, contemplating marriage.

Long-Term Care Insurance is not a "one-size-fits-all" product. Before you get a quote, you need to work with a pro to analyze your circumstances and see how much coverage you actually need. Then you can compare various products "apples to apples."

A well-chosen long-term care insurance plan can save you thousands of dollars in premium expense each year – and hundreds of thousands of dollars in future care expenses – plus stress and strain on spouse and family.

They both work at the

same company.

Have the

same six-figure salaries.

So why is one looking forward to

**early
retirement,**

while the other looks forward to

the 15th and the 31st?



The difference is a Northwestern Mutual Financial Representative, offering expert guidance in retirement planning, investment services, and a network of specialists to help get you closer to all your financial goals.



Northwestern Mutual
FINANCIAL NETWORK™

Are you there yet?

The Financial Lubricant of Free Enterprise

Insurance

ANNUITY INCOME

The "Buy a Pension" Alternative to Long-Term Care Insurance

Annuities can provide another alternative to Long-Term Care Insurance.

Mary is age 75 and is living comfortably on her income of \$30,000 per year but there is no room for inflation or for paying the \$2,000 or more per year for long-term care insurance a policy with a benefit of \$100 per day that she feels she must have.

The solution to Mary's problem could be to use some of her CD money (interest rates are lousy) to buy one of the new life annuities the insurance industry has developed.

For about \$200,000 Mary could buy a pension, an immediate annuity that would increase her income by almost \$20,000 per year. Add the \$20,000 to her current \$30,000 increases her current healthy standard of living to \$50,000 or \$137 per day to have fun with or to use to pay for long-term care.

IMMEDIATE ANNUITIES

The New Bond Alternative

Today fewer employees have pension plans, more of us are living longer and because of the volatility of the stock market more of us are "buying" pensions.

Having money left over at the end of life is not a problem. Having life left over at the end of money is a problem.

Consider taking a piece of your portfolio and buying an immediate annuity. The contract reads that if I die the income is to continue to my spouse or other beneficiary for life. There are all sorts of consumer friendly options that can be built in. The bottom line is that the annuity monthly income and social security may take care of basic needs, provide a comfortable income, so that the volatility in equity investments does not affect your standard of living. However, lifetime income is assured only if the insurance company backing your payment plan is sound. For example, Northwestern Mutual has

consistently received the highest ratings for financial strength from Fitch (AAA) and Moody's Investors Service (Aaa).

It makes it easier to take a long term, patient view towards stock market investments.

THE NEW LIFE INSURANCE

Variable Universal Life (VUL)

What if you could buy one life insurance policy?

- Insure your life and other people's lives under the one policy.
- Change the amount of coverage as your needs change.
- Tell the life insurance company when and how much you would like to put into the policy within certain minimums and maximums.
- Tell the insurance company where to put the money within the twenty or thirty accounts offered within the contract.
- Change your asset allocation without extra costs or income taxes.
- Get the money out of the policy for the kid's college education without having to pay income taxes.
- Put it back later so you can use it again if you wish for retirement.
- Or just pass it all on to your beneficiaries free of income taxes.

You can do all of that and more with a properly structured VUL.

VUL is a security product that tells you about every charge made within the product. Front loads, back loads, administrative expenses, cost to manage the various sub-accounts, maximum charges, and charges in case the insurance company guarantees are too generous. Don't let these charges consume your whole first year contribution which could happen if you put too little money into the contract. Put the money in the most volatile sub-accounts and account values will be volatile. Put the money in the less volatile or guaranteed interest account and they will be less volatile. The flexibility of VUL gives you the capability of doing a great deal more than your father's life insurance policy ever did. ●

Another way to keep your insurance costs down –

Listen to your teenager

Liberty Mutual and Students Against Destructive Decisions (SADD) sponsored a survey that included a group of 5 teenagers. Do you know what the results of that survey were? Those teenagers said that if their parents:

- Had open and honest communication with them about driving, drinking, drugs and sex,
- And exhibited a zero tolerance attitude about those things it would help stay out of trouble.

That type of communication and attitudes need to be exhibited in your behavior.

What that group of teenagers says parents can do to help them:

- Stay up until they get home
- Kiss them good night... they will think it's a breathalyzer test but it's also communication
- Enforce curfews
- Require that the teens sleep at home
- Know and talk to their friends and parents of their friends to ensure vision
- Ask teens to check in by phone during the evening.

and... the most startling advice a parent may ever get from a teenager:

Enforce consequences for misbehavior.

We can see that are children are always seeking security in an insecure world.

www.libertymutualinsurance.com

This special section was written by E. G. Baldwin Jr., CLU, ChFC, CFP. He has also written *The Complete Book of Insurance*, *The Life Insurance Investment Advisor*, 1988, *The NEW Life Insurance Investment Advisor*, 1994 and *The New Life Insurance Investment Advisor*, Second Edition.

For information about Special Advertising Sections please contact Stacy Sass McAnulty, Director of Worldwide Special Sections.

tel: (212) 512-6296

email: stacy_sass-mcanulty@businessweek.com

HOME AND AUTO NOW *and* FOREVER ONE *and* INSEPARABLE



Such is the nature of the ENCOMPASS UNIVERSAL SECURITY POLICY.
ONE INSURANCE POLICY, indivisible, for your home, car and most
everything else you value. With only ONE BILL and ONE AGENT to
contact, the hassles of separate policies shall trouble you no more.
Ask your Independent Insurance Agent about it today.

For THE AGENT NEAREST YOU *call* TOLL-FREE 1-866-760-6050
or visit encompassinsurance.com/info



LIBERTY, JUSTICE, AND REALLY GOOD INSURANCE.

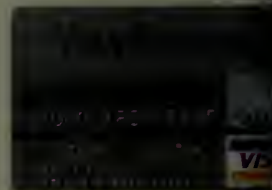


WHEN YOUR CASH FLOW IS UNDER CONTROL
THERE'S NO TELLING WHAT YOU CAN ACCOMPLISH.

Visa Business payment solutions may be just what you need. Our products, services and savings will help make your business a success.

Visa Business let you take control.

- Flexible Payment Solutions with Visa Business Credit Card or Credit Card
- Partner Advantage Business Savings Program
- Management Reports
- Accepted Worldwide



It's everywhere you want to

Call **1-800-725-6187** today to apply for the Bank One
Visa Platinum Business Card. Please mention offer **A11**.



BusinessWeek

Investor

MAKING LIFE RICHER



Laser Eye Surgery

What You Need to Know

The Fine Print: ■ Hers: Evaluating ■ Barker:
Corporate Taxes A Buyout Offer Propping Up Tyco

Laser Eye Surgery: Take a Second Look

As its popularity grows, so do post-op problems

BY LEWIS BRAHAM

Laser eye surgery has become so routine that ophthalmologists advertise it on billboards and perform the operation at shopping-mall clinics. But the seeming simplicity of the 15-minute procedure to correct nearsightedness can be misleading. In the surgery, called Laser-Assisted In Situ Keratomileusis (LASIK), a laser vaporizes part of the cornea and reshapes it to change the eye's focus. That's not quite as routine as having your teeth cleaned.

Some 2.6 million people have had LASIK surgery since it became available in the U.S. in 1995. Along with that growth has come an increase in complications and botched operations. These can range from minor irritations—dry eyes or poor night vision—to life-impairing conditions, such as double or blurry vision, or worse yet, blindness. Even satisfied customers may find that their vision regresses in a few years, and they need further surgery.

It's hard to pinpoint a precise complication rate. Studies by everyone from LASIK equipment manufacturers to the American Academy of Ophthalmology have shown that anywhere from 1% to 8% of LASIK patients experience post-surgery problems, depending in part on how "complication" is defined. Many studies focus on vision loss, for example, but overlook complaints about dry eyes or double vision. "A vast underclass of LASIK patients are deemed successful because they have 20-20 vision even though their visual quality is poor," says Ronald Link, founder of SurgicalEyes.com, a Web site devoted to LASIK patients with complications. In comparison, face-lift patients have a 2% to 3% complication rate, according to Doctor's Co., the largest



U.S. malpractice insurer for plastic sur-

Surgical error is responsible for some problems. If, for instance, the surgeon cuts the cornea's exterior membrane incorrectly, the patient could suffer vision loss or scarring. To find a qualified practitioner, try the Web site of the American Academy of Ophthalmology at www.aao.org, and go to its "Find an Eye Doctor" page. Then ask the surgeon if he or she has done the procedure at least 200 times. At that level, the instance of intra-operative complications drops from 4.5% to 0.9%, according to a study published by the LASIK Institute, a division of the American Society of Cataract and Refractive Surgery in Fairfax, Va.

Patients most likely to suffer complications are those who have preexisting conditions. A surgeon should have precluded them from having surgery (table). Critics say doctors may not be as careful as they should be, since fees are high—\$2,500 per eye—and patients sign preoperative releases absolving their doctors from complications. "Complications often stem from the qualifications of the patient," says Evelyn Beers, chief of the Food & Drug Administration's surgical-devices division. "Physicians have to do a better job screening out poor candidates."

A thorough preoperative screening takes an hour and should cost \$150 to \$200. "After testing, I reject a quarter to a third of the patients who seek LASIK," says surgeon Douglas Koch, who heads the ophthalmology department at Baylor College of Medicine in Houston. To avoid conflicts of interest, Koch recommends that patients get screened

by a doctor belonging to a different medical group than the one slated to perform the surgery. (Since LASIK is classified as a cosmetic procedure, health insurance generally doesn't cover either the screening tests or the operation.)

The first thing the screening doctor should check is the thickness of your corneas, using a device called a pachymeter. The FDA recommends that corneas be at least 410 microns thick after surgery—250 microns of that in the cornea and 160 microns in its flap. So the preoperative cornea should measure 450 to 650 microns. Patients with thin corneas can suffer vision loss.

Operating on an irregularly shaped cornea can also cause vision loss. So in preoperative testing, a surgeon uses a corneal topographer to map the cornea's contours. Conditions such as ectopia

steepness in the lower part of the cornea, and keratoconus, a bulging of the cornea, should disqualify the patient.

Screen Tests

Are you a poor candidate? Have these evaluations done first, and by a different doctor than the one slated to do the surgery

CORNEAL TOPOGRAPHY Checks for shape irregularities in the cornea. LASIK patients with ectasia, a steepness in the lower part of the cornea, or keratoconus, a bulging of the cornea, can suffer vision loss.

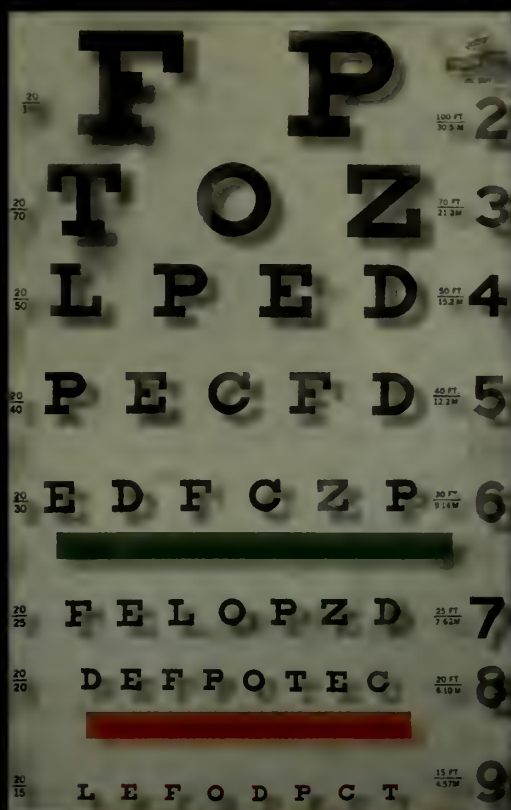
PACHYETER TEST Measures the thickness of the cornea. If you don't start with enough thickness to leave you with sufficient thickness after surgery, you could suffer vision loss.

PATHOLOGY EXAM Patients with glaucoma, diabetes, AIDS, cataracts, or herpes simplex inflammation are not ideal LASIK candidates. Diabetics and AIDS patients are slow to heal.

PUPILOMETER TEST Measures pupil size—4 to 6 mm is normal. At 8 mm and above, patients experience side effects such as GASH: ghosting, arcuate halos, starbursts, and halos.

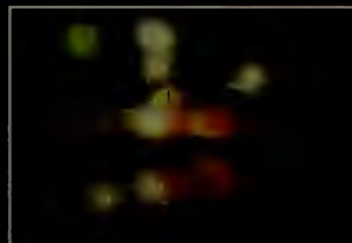
Can
ong?

tions
de vision
riness,
yes,
ems
here:



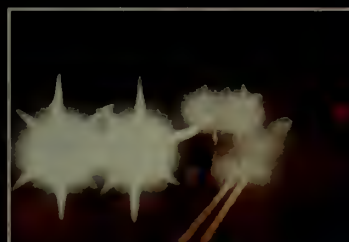
Double
vision or
ghosting

Starbursts



Halos

Starbursts
and halos



ser surgery. Patients with these irregu-
may see so poorly after LASIK that they
orneal transplants.

size pupils are also a problem. They can
a group of complications known as
ghosting, arching, starbursts, and halos—
h objects seem fuzzy at the edges and
urces seem to burst like the sun. "Every
like the Fourth of July for me, with fire-
shooting out of it," says Frank Boydston,
Diego financial analyst who had LASIK last
e problem arises because LASIK lasers are
o operate on eyes with pupil diameters
8 millimeters. Boydston discovered after
that his pupils exceed that limit.

eyes, which sting from a lack of tears, are
e for most patients. But for those who
have dry eyes, the condition can become
mitating after surgery that they can no
be in a dry environment—such as on an
—without excruciating pain. The Schirmer
test detects dry eyes by using paper filters
sure tear production. A tear spot less than
eters in diameter is a sign that the patient
y eyes and may want to avoid LASIK.

ful abrasions on the eye can become a re-
problem for LASIK patients who have ep-
basement membrane dystrophy (EBMD), a
of the cornea's membrane, which causes it
e. "It's one of the most painful things I've

ever experienced," says Thomas LaMark, a free-
lance musician in Andover, Mass., who has EBMD
and had LASIK. "The eye becomes extremely
bloodshot, swells up, and almost closes." To test
for EBMD, the surgeon should stain the eye with a
chemical called fluorescein and examine it under a
lamp. The stain will have a different color in re-
gions of the eye with abrasions, an EBMD indicator.

A common condition known as presbyopia can
present another problem after LASIK surgery:
difficulty in reading. The eye's lens hardens with
age, and adjustments in focus from near to far-
away points are difficult. LASIK simply reverses
the problem, so the person can see distances
better but not up close. The test for presbyopia
is a basic visual-acuity exam to measure the lev-
el of impairment. Presbyopic patients will need
reading glasses after LASIK, though they should
be able to drive their cars without glasses or
contact lenses.

If you're considering LASIK surgery, you'd be
wise to understand its risks and trade-offs, es-
pecially since it is possible that the positive ef-
fects of the surgery may not last. Generally
speaking, the worse your vision is prior to LASIK,
the more likely it is your eyesight will regress af-
terward. Then you will need to have LASIK a
second time—a so-called "enhancement surgery."
That's something not to lose sight of before you
go under the beam. ■

Patients sign
complication-
liability releases,
so doctors may
not be as diligent
as they should be
in screening out
unsuitable
candidates

KAM Detects epithelial
membrane dystrophy
regularities in the
membrane. This condition
painful abrasions

SCHIRMER TEARING TEST Detects
dry eyes, a condition that can
be exacerbated by laser surgery.
A tear spot on the test paper that is
less than 8 millimeters wide
indicates dry eyes.

VISUAL ACUITY Patients who
have either severe astigmatism
or presbyopia, a rigidity of
the lenses that causes
focusing problems, are not
ideal candidates.

How to Spot Tax Tinkering

See if products are really boosting profits

BY ANNE
TERGESEN

Why companies report one set of numbers to the IRS and a different set to shareholders—and what that means for investors

Over the past few years, revenue growth has been mighty sluggish at IBM. So Big Blue's financial folks turned to a variety of techniques to boost earnings per share, including buying back stock and lowering the tax bill. In fact, Steven Milunovich, a technology strategist at Merrill Lynch, estimates that from 1995 through 2001, tax maneuvering accounted for 25% of the company's earnings-per-share growth.

Like IBM, many companies squeeze a little extra out of the bottom line by reducing their taxes—often by shifting operations to countries with lower rates than the U.S.'s 35%. Companies including Ingersoll-Rand and Stanley Works are seeking to slash taxes—and raise net income—even more by reincorporating in tax havens, such as Bermuda.

There's nothing wrong with most tax-cutting maneuvers. Indeed, money saved by reducing tax rates flows to the bottom line, enriching shareholders just the same as earnings from cost-cutting campaigns or new products.

Still, it's important to note when tax strategies boost profits. Gains driven by tax-rate reductions can mask a slowdown in core business op-

erations. Moreover, investors should be paying a premium for such gains because IBM shareholders are discovering—a corollary—that move to Bermuda could find their gains short-lived. That's because Congress is threatening to curtail such tax breaks, in response to accusations that Enron used including offshore subsidiaries, to dodge taxes. Lowering the tax rate "is a positive," says Dennis Beresford, an accounting professor at the University of Georgia. "But it's not quite the same as selling more products."

This installment of *The Fine Print*, a series examining financial statements, footnotes, and other corporate documents, helps investors understand the impact of taxes on the bottom line.

The tax footnote gives you what you need to calculate tax rates paid in each of the past years—making it easy to spot when a company has profited from a rate reduction. It also alerts you to changes in accounting practices designed to engineer short-term earnings without improving the company's long-term prospects.

"The tax footnote is a place to hunt for companies playing accounting games," says Stuart Cunningham, research director at Olstein Financial Alert Fund.

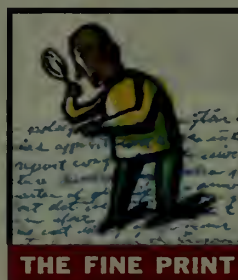
When examining the footnote, look at Table 1. Here you'll find much more than the tax the company owes the IRS. Student Loan Corp.'s "deferred income tax provision" was \$92.6 million in 2001. This figure, which

appears on the income statement, reflects the company's claim on the company's \$228 million pretax earnings.

Things get tricky from here, though. In effect, there are two parallel tax systems. This results in companies reporting two different tax expenses (and two different versions of the bottom line)—one to the Internal Revenue Service and the other to shareholders.

Why two systems? Because of IRS's rules for recognizing and deducting tax liabilities frequently differ from the generally accepted accounting principles (GAAP) that govern shareholder accounting. For example, say a brokerage buys \$1 million worth of stock that appreciates to \$1.5 million while in its portfolio. In its official books, the firm must record the \$500,000 gain as income and deduct an expense from income to cover the capital-gain tax liability.

On its tax return, however,



The provision for income taxes consists of the following:

(\$000's)	2001	2000	1999
CURRENT			
Federal	\$36,492	\$ 1,953	\$42,430
State	9,883	626	13,827
Total current	46,375	2,579	56,257
DEFERRED			
Federal	36,395	54,521	5,740
State	9,857	17,460	1,871
Total deferred	46,252	71,981	7,611
Total income tax provision	\$92,627	\$74,560	\$63,868

TABLE 1

Total income tax provision, which appears on the income statement, reflects the tax man's claim on pretax earnings. Some of the bill may be deferred.

NEC



Introducing CRT monitors as brilliant as your ideas.

even new models
from 17" to 22."

each delivers brilliant
performance and value
in your choice of black
or white cabinet styles.

SuperBright™ makes
images come alive.

Instantly doubles
brightness for intense
video, graphics and
multimedia applications.

NaViSet™ offers a
new level of control.

Advanced software
enhances user control
and enables remote
adjustment over LANs.

Compact, light,
even more adaptable.

New ergonomic
design trims weight and
reduces footprint for a
better fit everywhere.

With SuperBright™ Diamondtron®, an all-new design and even more lifetime value, our MultiSync® FE™ Series just might change what you know about CRTs. These all-new monitors are full of dazzling innovations. For example, the SuperBright technology in the MultiSync FE771^{SB}, FE791^{SB}, FE991^{SB} and FE2111^{SB} models doubles your brightness at the touch of a button. New industry-standard sRGB color matching gives truer tones in web applications. And NaViSet™ control software puts a virtual control panel on your desktop for precise adjustment via mouse and keyboard.

The FE Series also offers extreme reliability, easy deployment and low total cost of ownership. Power use has been reduced by as much as 21%, lowering electricity costs. Plus we've trimmed pounds and inches for a lighter, more ergonomic form factor. Add patented self-diagnostics and intelligent network control capability, and the new choice in CRT monitors is clear.

Learn more at www.necmitsubishi.com/FE
or call 888-NEC-MITS.

The new MultiSync FE Series.
A bright investment in intelligent design.



SEE MORE.™

MultiSync is a registered trademark, and FE, NaViSet and SuperBright are trademarks of NEC-Mitsubishi Electronics Display of America, Inc. Diamondtron is a registered trademark of Mitsubishi Electric.

©2002 NEC-Mitsubishi Electronics Display of America, Inc.
All rights reserved. Simulated images in monitors.

NEC/MITSUBISHI
NEC-MITSUBISHI ELECTRONICS DISPLAY

TABLE 2

Compare deferred tax figures with those of previous years and check whether increase reflects an accounting change.

(\$'000's)	2001	2000
DEFERRED TAX ASSETS		
Loan premium	\$ 7,239	\$ 9,349
Account relationship	5,299	6,264
Noncompetition agreement	1,675	1,981
Risk-sharing	1,470	1,806
Other	1,072	1,188
Total deferred tax assets	16,755	20,588
DEFERRED TAX LIABILITIES		
Deferred loan origination costs	(106,970)	(68,244)
Internally developed software costs	(3,693)	--
Total deferred tax liabilities	(110,663)	(68,244)
Net deferred tax liabilities	(\$ 93,908)	(\$ 47,656)

ports no income and, therefore, owes no tax. Why? Under tax law, no tax is due unless the stock is sold and a gain realized—and that hasn't happened. So the firm makes a record of what taxes would be due if the stock were sold. Then, it puts that amount on its balance sheet as a "deferred tax liability." In Student Loan's case, Table 2 shows that the "net deferred tax liability" was \$93.9 million in 2001, up from \$47.6 million in 2000.

In theory, a company will eventually pay its deferred taxes. For example, when a brokerage sells stock, it must report any profit to the IRS—and send a check to cover the taxes. Sometimes, the IRS requires a company to pay tax before

Still, when deferred tax liabilities jump, shareholders need to ask why. It could be that a company has adopted more aggressive accounting policies. In Student Loan's case, it used to write off the entire cost of making, or "originating," a loan at

the time the loan was issued. But now, the company spreads that cost over each year of the loan's life. While perfectly legal, the change allows Student Loan to report higher earnings to shareholders than it would have under

the old method. This is especially true now that the company's deferred-loan origination costs have spiked, thanks to a new policy of purchasing loans to supplement its homegrown portfolio.

Yet the change caused Student Loan's deferred tax liability to jump. Here's why: While the company spreads the cost of making new loans over several years on its financial statements, it continues to deduct that cost immediately on its tax return. By taking a larger deduction on its tax return than on its financial statements, the company reports a lower net income to shareholders. As a result, Student Loan pays the IRS less than its official books say it owes—and the rest.

Table 2 can tell you whether a deferred tax asset or liability has increased or decreased. To find evidence of an accounting change, look

in the first footnote to the financial statements. Companies disclose accounting practices. Sometimes, changes are not flagged, so you'll have to compare the current footnote to ones from the past. You can also call and ask the company's investor relations department for an explanation.

Finally, look at Table 3, which traces a company's "effective" tax rate over the past three years. The table calculates the company's tax burden as if it had paid the 35% federal rate levied on most big U.S. companies. Table 3 shows why the actual tax bill differs. Effective rates often dip due to tax breaks and rates on foreign earnings.

Companies don't always show effective rates. To do the math, take the tax expense and divide it by the "income tax provision," in Student Loan's

case, it's \$93.9 million divided by \$222.5 million, or 42.2%. Student Loan's effective rate is 40.6%, down from 41.7% in 1999. That's good—but there's still room for improvement. Now you know how to look to see how the tax accountants are doing their jobs.

GAAP rules trigger a tax expense on the official books. In such a case, a company would essentially prepay the tax and place a "deferred tax asset" on the balance sheet that can be used to offset future tax expense.

Thanks to this two-tiered system, Student Loan paid the IRS far less tax than the \$92.6 million it listed as a tax expense for 2001. In fact, if you look up the "current" portion of its tax bill in Table 1, you can see that the company sent the IRS a check for \$46.3 million, deferring the remaining \$46.2 million.

Is it good for shareholders when corporations have deferred tax liabilities? You bet. That tax deferral frees up cash for other purposes, such as launching new products or paying down debt, says Beresford.

TABLE 3

This shows "effective" tax rates for the past three years. If the company hasn't done the math, divide total income tax provision by pretax income.

(\$'000's)	2001	2000	1999
Income taxes computed at federal statutory rate	\$79,796	\$62,804	\$53,664
State tax provision, net of federal benefits	12,831	11,756	10,204
Total income tax provision	\$92,627	\$74,560	\$63,868



We double dog dare you

to find a software provider that
knows more about manufacturing
than we do.



Whether it's ERP, SCM or collaboration—if it's manufacturing, MAPICS knows it inside out.

For more than 20 years, MAPICS has supported the needs of mid-market manufacturers. We've never lost focus, and our track record of our services, and our record of handling manufacturers' business issues prove it. Can any software company say the same? They may, but can they back it up? We can—with thousands of successful implementations with mid-market manufacturers. And applications that run on your technology platform—Windows NT, UNIX, Linux or IBM iSeries. At MAPICS, innovation is not just talk; it's reality. We understand manufacturers' pain—like finding ways to increase efficiencies and improving performance—and we provide solutions that deliver real value they appreciate. So take our dare. Discover for yourself why MAPICS is the best choice to help you compete better in today's manufacturing environment.

Special Offer! Visit www.mapics.com/wcm to receive your free copy of our *World Class Manufacturing in the 21st Century* paper that provides 5 proven initiatives to achieve market leadership.

www.mapics.com 1.888.3MAPICS (362.7427) 1.770.886.4058 (Outside the U.S.)

B-school: Don't Take 'No' For an Answer

Here's how to improve your chances next year

BY JENNIFER MERRITT

So you got rejected for the Class of 2004. That doesn't mean you should set your MBA ambitions aside. With top B-schools reporting 30% to 50% more applications, many qualified applicants were disappointed this year.

But if you start now, you can improve your chances for the Class of 2005—and shoot for the first application deadline that comes in November or early December.

Start with your score on the Graduate Management Admissions Test. For *BusinessWeek's* Top 30 MBA programs, the average score of current enrolled students ranged from 635 to 720. If you fall short of that, retake the test. You've got to sign up about a month in advance, but the test is offered several times each month. And do some prepping with study guides or even a GMAT course.

If a school that rejected you offers "why deny" sessions, make an appointment. These one-on-one meetings can give you an idea of where your application was weak and tips on how to strengthen it. "Don't just disregard the feedback the school gives you," says Sharon Thompson, associate director of admissions at Duke University's Fuqua School of Business.

More important, think carefully about the

Think carefully about each school you're targeting, so you can let admissions officers know why you belong there

BusinessWeek online

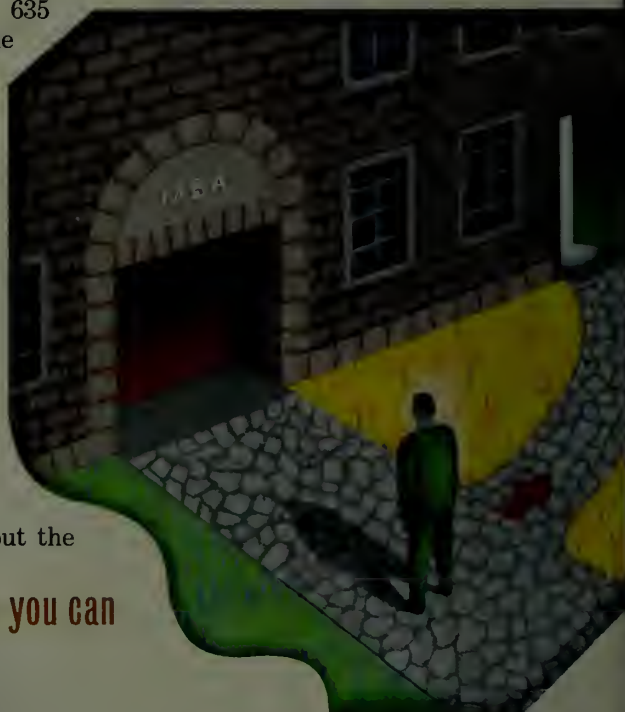
For profiles of more than 200 MBA programs, exclusive articles, and Q&A's with school admissions directors, go to www.businessweek.com/bschools

University of Pennsylvania's Wharton.

Those direct experiences with the school also make for better essays, says Linda H. director of admissions at the Anderson School of Business at the University of California, Angeles. Applicants who've visited the school "can express much more insightfully why they belong there," she says.

Speaking of essays, many unsuccessful applicants trip up on the most basic question: Do you want an MBA from this school? If you spout off a laundry list of reasons that make you a good candidate, dressed up by a few sentences taken from the school's own literature, your application will be viewed with skepticism. Try focusing on one or two traits that are important to you and link them to the characteristics of the MBA program. Says Maureen: "We're interested in the life lessons you've learned." For example, if you're passionate about rock climbing, you might write about how the sport shaped who you are.

As for academics, you've got a few months to better demonstrate that you can handle college classes. If your college transcript is lousy,



schools you're targeting. Doing legwork on the schools is the most crucial step you can take to make your application stronger, say admissions officials. That means, if you haven't already, spend the money to visit the schools. Arrange with admissions to sit in on some classes, talk to students, and immerse yourself in the goings-on for a day or two. Such exposure can help you better decide which school is right for you. Remember, the GMAT report that's sent to admissions committees will show which other B-schools are getting your scores. A selection of drastically different institutions raises questions about how well you know the schools—and for that matter, your own goals, says Rosemarie Martinelli, admissions director at the

math or if your academic record is meager. Take some courses in, say, calculus. And go hard. Admissions committees will be looking for grades that show how much you've improved since your college days, says Maureen Baldwin. She adds that among the 30% of applicants who are eventually accepted at top schools, many have done that extra course work. Most universities offering several summer sessions, you have time to take a class or two.

Finally, take on more responsibilities at work or in a nonprofit or social group you're involved with. Stepping up your involvement pairs well with being someone who takes initiative. As a more improved applicant, this time next year you'll be getting good news in the mail.

June 6-7, 2002 • Washington, D.C.

Ronald Reagan Building &
International Trade Center

The McGraw-Hill Companies

HOMELAND SECURITY

SUMMIT & EXPOSITION

THREATS AND SOLUTIONS

ARE YOU PREPARED FOR THE FUTURE? After September 11th, uncertainties have arisen that the U.S. Government and the global business community must address immediately. Some of these include:

- What public and private measures have been implemented to lessen the risk of another terrorist attack?
- Is the aviation and transportation infrastructure any less vulnerable than eight months ago?
- How extensive and detailed should business disaster/continuity plans be?
- With many of the world's populations at odds with the U.S., how should the U.S. manage and ease this tension and create calm where there is rage?

Join these international business executives, experts and policy makers as they discuss solutions that address these questions and others. There are more than 50 speakers confirmed, including:



Scowcroft



Holbrooke



Armstrong



Woerth

- **General Brent Scowcroft**, President and Founder, The Scowcroft Group; former National Security Advisor to Presidents George H.W. Bush and Gerald Ford
- **Ambassador Richard C. Holbrooke**, Former United States Ambassador to the United Nations
- **C. Michael Armstrong**, Chairman and Chief Executive Officer, AT&T; Head of Security and Economic Recovery Task Force, Business Roundtable
- **Ambassador L. Paul Bremer III**, Chairman and Chief Executive Officer, Marsh Crisis Consulting; former Ambassador-at-Large for Counter Terrorism
- **The Honorable Joseph Biden (D-Del.)**, U.S. Senator, Chairman, Foreign Relations Committee, U.S. Senate
- **Captain Duane E. Woerth**, President, Airline Pilots Association, International
- **Bill DeCota**, Director of Aviation, New York/New Jersey Port Authority
- **Jeffrey David**, Deputy Director, Combating Terrorism Technology Support Office, U.S. Department of Defense
- **The Honorable Bill Frist, M.D.**, (R-Tenn.), U.S. Senate; Senate Health, Education, Labor and Pensions Committees
- **The Honorable Michael M. Honda**, U.S. House of Representatives

Registration is filling up fast! REGISTER TODAY!

www.mcgraw-hill.com/homeland

The McGraw-Hill Companies

REGISTER ONLINE BEFORE MAY
FOR DISCOUNTED RATES!

visit

mcgraw-hill.com/homeland

Register by calling Ryan Leeds

at (800) 240-7645 Ext. 7

or (212) 904-3892

SPONSORING PARTNER:

radata
a division of NCR

REPORTING SPONSOR:

**JOHNSON
CONTROLS**

PRODUCED BY:

WEEK

BusinessWeek

**McGraw Hill
CONSTRUCTION**

platts

**STANDARD
POOR'S**

SHOULD YOU GRAB THAT BUYOUT?



BY TODDI GUTNER
hers@businessweek.com

In addition to crunching the numbers, you need to figure whether you'll be able to land a new job and hang on to your stock options

As companies downsize, one way of reducing head counts is the retirement buyout package. These proposals offer financial incentives to encourage longtime employees to retire two to three years before the company's earliest retirement age, usually 55, or a few years before the typical retirement age of 65 or older.

The decision whether to take the offer is not an easy one. Pass it up, and you run the risk of being laid off later—without the sweeteners. Moreover, you'll have 30 to 90 days to give your response. "Assessing these proposals is a complicated and time-consuming process," says Frank Marzano, a certified public accountant and financial adviser with American Express Financial Advisors in Port Washington, N.Y. "A lot of money can be left on the table if the proposal is not properly analyzed."

Indeed, a number of issues must be considered before making the decision. But first you'll need to decide if you want to get another job and what salary you can command. You'll also need to understand how your pension is calculated. One common formula figures your benefit based on a percentage of the average of your last five years' base salary, and the percentage is usually 1% to 1.5% times the years of service. So if you worked 25 years, and your company allows 1% a year, your benefit would be 25% of the average of your last five years' salary. If you would otherwise retire in 10 years when you have 35 years' tenure, that formula would help you estimate what you might receive if you stay at the same company.

Now, consider the buyout. Say you're 52, three years away from the company's earliest retirement age of 55, and you earn \$120,000 a year. The company is offering you a \$250,000 incentive bonus—roughly two years of salary. It's also throwing three extra years into your

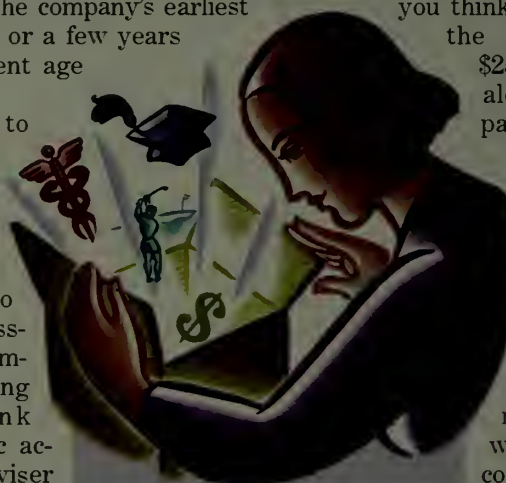
pension, so your ultimate benefit would be calculated assuming you work until 55. That says you can land a \$60,000-a-year job.

First, estimate three years of your salary taxes (table). Then take the present value of that sum, using a discount rate of 5%—speaking, the interest rate on a high-grade municipal bond. (Present value is a future sum expressed in today's dollars.) That comes to \$208,000. Then you repeat the calculation, considering the retirement bonus and the \$60,000-a-year pension.

Now you think you can get after you leave the company. That comes to \$253,000. "Based on the numbers alone, the early retirement package appears attractive," says Marzano. Now suppose you had 10,000 stock options, worth just \$10,000 now, but possibly a lot more a few years hence. If you have already feasted on these options, you've lost much more than was offered in the retirement package. Your strategy would be to negotiate with the company to hold on to as many options for as long as possible.

There are, however, a number of things "companies" to work the tax code to your advantage, and that is something," says Jim Marple, a New York-based retirement specialist at benefits consulting firm Watson Wyatt Worldwide. For example, rather than your incentive bonus out of a roll, which would be taxable ordinary income, the company may be able to pay it out as a retirement benefit that you can roll into an individual retirement account, letting you escape taxes for now. Another sweetener might be the ability to use your pension in a lump sum, which you can transfer to an IRA, rather than collecting it on a monthly basis.

Receiving a buyout would certainly propel you to consult a financial adviser, possibly a lawyer just to get the legal aspects of the package straightened out. In fact, most companies request that you sign a release so you don't come back a few years later for age discrimination, Marple. Consulting an attorney today can save you headaches later on. And at least you can walk away from the table knowing you got yourself the best package possible.



Your Options

You're 52, three years away from earliest retirement age of 55, your salary is \$120,000 a year, and you expect 4% annual hikes. You're in a two-income household, so assume a 40% cost for taxes.

OPTION ONE Stay at the company, and estimate three years worth of salary. Take the present value of that sum using a 5% discount rate.

Year 1: \$120,000

Year 2: \$124,800

Year 3: \$129,792

Present value after taxes: \$208,000

OPTION TWO Take the \$250,000 retirement bonus. You land a job with an annual salary of \$60,000 after you leave the company.

Bonus after taxes: \$150,000

Year 1: \$60,000

Year 2: \$62,400

Year 3: \$64,896

Present value after taxes: \$253,000

Data: Frank Marzano, American Express Financial Advisors

BusinessWeek online

To join a discussion in our forum, see hers.online at www.businessweek.com/investor/

small business software:
\$300

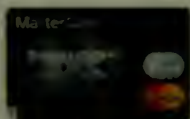
2000 sq ft downtown:
\$5000/month

fax machine & photocopier:
\$800

earning points you can use to get a new officemate:
priceless

© 2001 MasterCard International Inc.

time you use your MasterCard BusinessCard® with Business Bonuses™, you earn points good for anything, anywhere you see the MasterCard® logo. (Even a new furry friend.) Other credit cards limit you to airline miles or make you pick something out of a catalog. With MasterCard, you're the boss of your own rewards program. Call 1-866-444-BONUS or visit mastercardbonus.com to enroll.



there are some things money can't buy. **MasterCard** for everything else there's MasterCard.™

Only available through participating banks. Certain restrictions and limitations apply.

10 WAYS TO PROP UP TYCO



BY ROBERT BARKER
rb@businessweek.com

Wondering where Tyco will get the cash to pay down all that debt? Here are some ideas from that wild and crazy guy, D. Kozzy!



Tyco Announces Plan To Unlock Billions of Dollars of Shareholder Value—Company To Separate Into Four Independent, Publicly Traded Companies
—headline, Jan. 22.

Tyco Scraps Break-Up Plan; Posts Loss, Cuts Forecast, and Unveils Job Cuts
—headline, Apr. 25.

To: Board of Directors, Tyco International
From: Dennis Kozlowski, chairman and CEO
Re: Cash Money

Unbelievable! A year ago, *BusinessWeek* had me as its cover boy—"The Most Aggressive CEO." This year, Tyco stock is off 70%. No matter how often I repeat, "There is no liquidity crisis. There is no liquidity crisis. There is no liquidity crisis," Wall Street keeps wondering how we'll get the cash to pay our debts. Skeptics doubt we can raise billions by selling CIT Group. My credibility, they say, is shot. I say: The Street wants to see the money? We'll show them money. Herewith, 10 fresh cash-raising initiatives:

1. Think how much cash changes hands each year in this country's fragmented fund-raising industry. Bake sales. Student car washes. Talent auctions. Bingo. We can get our cut. With Tyco stock, we will buy a bunch of these operations, roll them up, and "Tycoize" them into a cash machine. This makes my mouth water: We pay stock and we get back cash—plus first dibs on all unsold banana bread.

2. As you well know, one of our core competencies is avoiding U.S. taxes by using a mail drop "headquarters" in Bermuda while still calling the shots from New Hampshire. We can leverage our tax-beating knowhow into a high-margin service for individuals. (Attn. CFO: Schedule meeting re: joint venture with H&R Block.)

3. Never have I been above stealing a good idea. So don't doubt me when I ask if you recall when Sean "Puffy" Combs's credibility as a crazy gangster ran low. What did he do? He and J. Lo stepped out on the town and stumbled into a lit-

tle nightclub "incident." Puffy's stree soared! While awaiting trial, he launched his own line of clothes, tapping a fresh stream of royalties. For the truly dangerous CEO, the fashion label will soon be... D. Kozzy.

4. We're already at work on this: We're projecting stacks of 2002 financial projections to the recycling center. We make sure all paper is recycled, so recyclers pay us full pulping.

5. We have long let Tyco's operating managers run their businesses independently. I wonder if we have not foregone cross-selling opportunities. How many of our fire-alarm companies also might want surgical sutures? Buyers of clothes hangers also yearn for and sundry flow controls?

6. In all honesty, I'm sick of being called "D. Kozzy." (It made my ex-wife a tad miffed, too). But I bet Jack will set me up with a book agent. A book by me will pull in plenty of cash, especially now as everyone wonders what I'll say next. Tentative title: *Straight Off the Top of My Head*.

7. Flexibility is a byproduct of Tyco. This has me thinking of C.R. Bard. I warmed up to the Bard people as we prepared this year to buy the medical-supply business. We ran into the curtness and pleasantness and broke off the deal. The feeling was mutual. Maybe Bard can buy our health-care unit in return.

8. We have commissioned Sotheby's to auction signed copies of last year's *Time* articles about me. I imagine how much an issue of the *Chicago Daily Tribune* headlined "Dewey Defeats Truman" must fetch.

9. Ken Lay's wife is handling post-Enron university with aplomb. I'm selling Jus' Stuff, a shop where she is selling her old home furnishings. As I've said many

Tyco has nothing to do with Enron. But it doesn't mean we can't also sell stuff from plants we are closing. HR is checking to see who can partner on this with the 7,100 employees we are laying off.

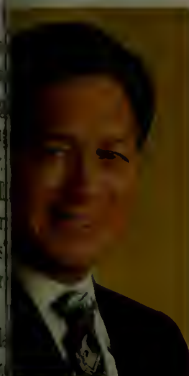
10. Stop financial engineering—the restructurings, spin-offs, and initial public offerings. Reorganize businesses just for the cash they can generate. On second thought, scratch that—no one will ever believe me.



BusinessWeek online

For barker.online, go to www.businessweek.com/investor/ and click on "C"

APPX: CANCER FIGHTER



Gene G. Marcial

new drug
promise
breast
Broker
is
—and even
The stock of
J. Jill steps
high style

B iotechs have been pulverized lately, and the market has ground down even companies with strong results. Take American Pharmaceutical Partners (APPX), whose stock has tumbled from 22 on Dec. 31 to 14. It earned \$12.6 million, or 30¢ a share, in 2001, on revenues of \$192 million. In 2002's first quarter, sales jumped 38%, to \$54 million, and earnings leaped from 1¢ to 10¢. Moreover, the No.1 APPX product, ABI-007, shows promise as a treatment for metastatic breast, lung, and ovarian cancer. A reformulation of paclitaxel—better known commercially as Bristol-Myers Squibb's big-selling Taxol—ABI-007 is in Phase III clinical trials. On May 19, APPX will report early results at the American Society of Clinical Oncology meeting in Orlando.

"We expect APPX to disclose favorable Phase II results in metastatic breast cancer patients," says Martin Sass, CEO of M.D. Sass Investors Services, which has been buying shares. This "potential blockbuster achieves a higher response rate than Taxol, with less toxicity," says Sass, "and can be used at higher dosages." Sass knows the drug through a nonprofit cancer research group he funds. He says ABI-007 targets a \$1 billion market. Sass and other analysts expect APPX to file for Food & Drug Administration approval in the first quarter of 2003—and get an O.K. in 2004. The company didn't respond to a call for comment.

Current APPX sales stem from other generic oncology, anti-infection, and critical-care products. Sass figures the company will earn 50¢ a share in 2002 and 65¢ in 2003. Between 2004 and 2005, ABI-007 could yield huge sales, says Sass. He sees the stock doubling in two years. Analyst Elliott Wilbur of CIBC World Markets, which took APPX public, estimates peak ABI-007 sales of \$500 million by 2007. He rates the stock a strong buy.



SASS: Expecting good trial results

JEFFERIES: AHEAD ON THE STREET

W hile shares of most brokerage houses have fallen from their highs, Jefferies Group (JEF) has been on an upswing, soaring from 27 on Sept. 20 to 46 on May 8. What's its secret weapon? Increased earnings derived from solid investment-banking results—despite the slow economy and market malaise—have given Jefferies an edge that eludes its rivals. In the first quarter, Jefferies beat Street forecasts, with earnings of 65¢ a share, prompting ana-

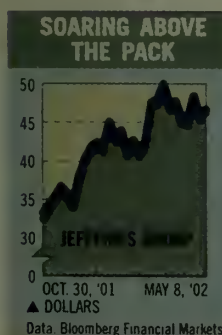
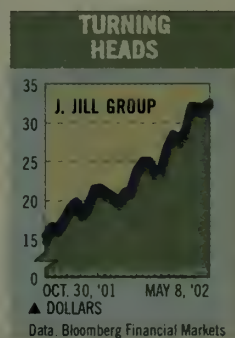
lysts to raise their 2002 and 2003 estimates. And what's firing up investment banking at Jefferies, where revenues from trading stocks and bonds for institutions account for 70% of the total? "Our singular focus on small-to-mid-cap companies has paid off," says CEO Richard Handler. Jefferies is probably the only brokerage that is hiring: "We continue to hire qualified laid-off producers who are familiar with small companies," says Handler. "We are working on 35 restructuring deals right now."

Analyst Marie Ogurick of independent research firm Sidoti has raised her 2002 earnings estimate from \$2.63 a share to \$2.72 and upped her 2003 figure from \$3.20 to \$3.30. She expects 2002 revenues to rise 10%, to \$861 million, and an additional 20% in 2003, to \$1.03 billion. "Jefferies is a solid institutional franchise with inherent value—given its risk, return, and growth prospects," says Ogurick.

J. JILL SASHAYS UP THE RUNWAY

Retail has been a favored sector in this moribund market, but J. Jill Group (JILL), which sells upscale women's apparel and accessories, is looking especially smart. Down to 10.20 a share on Sept. 25, the stock had rocketed to 32 by May 8. "Jill has delivered earnings way ahead of expectations, and the stock is reflecting it," says Jeffrey Klinefelter, an analyst at U.S. Bancorp Piper Jaffray, which has done investment banking for Jill in the past. Despite the stock's steep ascent, Klinefelter, who doesn't own Jill shares, says it's still undervalued. He rates Jill a strong buy, with a 12-month price target of 43, based on 25 times his 2003 earnings estimate of \$1.72. This is conservative, he says, in light of Jill's considerable expansion potential. He sees 2002 earnings of \$1.37, up from \$1.05 in 2001.

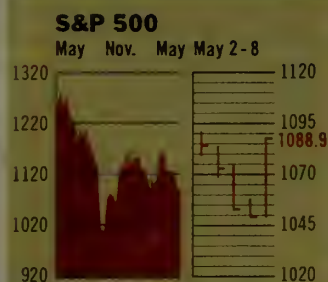
Jill's sales and earnings took off in 1999, when it turned itself from a catalog marketer into a multi-channel retailer: It has opened 55 retail outlets and put up a Web site to lure sales over the Net. In 2002's first quarter, catalog sales, which had accounted for 64% of sales, shrank to 50%. Shop sales—formerly 17% of sales—jumped to 31%, and Web sales stayed at 19%. Total 2001 sales climbed to \$287.1 million, up from 2000's \$246.3 million. In 2002, Klinefelter expects \$345.7 million. Earnings growth, he says, will exceed 25% annually for the next three years.



BusinessWeek online

Read Gene Marcial's Inside Wall Street Online column Tuesday afternoons at www.businessweek.com/today.htm. And see him Fridays at 1:30 p.m. EST on CNNfn's *The Money Gang*.

Stocks



COMMENTARY

Cisco Systems' better-than-expected quarterly earnings report on May 8 not only sent shares of the networking giant soaring 24%, but lifted the whole market along with it. That same day the Nasdaq, S&P 500, and Dow Jones industrials rose 7.8%, 3.8%, and 3.1%, respectively, as the rally surged into all market sectors. The gains put all the indices in solid terrain for the week.

Data: Bloomberg Financial Markets
Bridge Information Systems, Inc.

U.S. MARKETS

	May 8	Week	Year to date	Last 12 months
S&P 500	1088.9	0.2	-5.2	-13.7
Dow Jones Industrials	10,141.8	0.8	1.2	-6.8
Nasdaq Composite	1696.3	1.1	-13.0	-22.9
S&P MidCap 400	539.7	-0.1	6.2	5.2
S&P SmallCap 600	254.6	-0.2	9.7	14.4
Wilshire 5000	10,328.9	0.1	-3.5	-11.2

SECTORS

	May 8	Week	Year to date	Last 12 months
BusinessWeek 50*	679.3	-0.6	-6.9	-23.6
BusinessWeek Info Tech 100**	346.2	-0.1	-17.4	-33.3
S&P/BARRA Growth	550.6	0.2	-7.4	-12.9
S&P/BARRA Value	535.7	0.2	-3.0	-14.9
S&P Energy	220.6	-0.1	4.4	-8.7
S&P Financials	359.5	0.6	1.2	-3.9
S&P REIT	98.7	-0.8	5.7	13.3
S&P Transportation	202.8	0.7	2.9	-1.4
S&P Utilities	142.5	-2.4	-2.3	-29.1
GSTL Internet	81.8	0.3	-22.1	-44.6
PSE Technology	606.4	0.4	-11.8	-21.7

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Oil & Gas Drilling	11.5	82.9
Gold Mining	11.3	53.6
Photographic Products	11.0	47.0
Managed Health-Care	10.7	38.6
Housewares & Specialties	10.5	37.8

EQUITY FUND CATEGORIES

4-week total return	%	52-week total return	%
Leaders			
Precious Metals	17.6	Precious Metals	70.0
Japan	3.3	Real Estate	20.5
Pacific/Asia ex-Japan	2.6	Small-cap Value	15.7
Diversified Pacific/Asia	2.5	Diversified Emerging Mkts.	9.4
Laggards			
Technology	-13.5	Communications	-46.2
Communications	-10.9	Technology	-42.2
Health	-7.5	Japan	-27.5
Large-cap Growth	-6.8	Utilities	-23.4

EQUITY FUNDS

4-week total return	%	52-week total return	%
Leaders			
Rydex Dynamic Vent. 100	31.4	First Eagle SoGen Gold	107.1
ProFunds UltraShort OTC	31.2	U.S. Glob. Wrld. Prec. Mins.	95.0
Van Eck Intl. Inv. Gold A	23.6	U.S. Global Investors Gold	93.0
U.S. Glob. Wrld. Prec. Mins.	23.1	Gabelli Gold	90.8
Laggards			
Reg. Opport. Oh.-Ind.-Ky. B	-29.1	ProFunds UltraOTC Inv.	-71.4
ProFunds UltraOTC Inv.	-26.9	ING Global Commun. A	-69.6
World GenomicsFund.com	-23.6	Black Oak Emerging Tech.	-67.6
iShares DJ U.S. Internet	-22.7	Berkshire Focus	-65.1

Data: Standard & Poor's

GLOBAL MARKETS

	May 8	Week
S&P Euro Plus (U.S. Dollar)	1056.7	-0.6
London (FT-SE 100)	5209.1	0.8
Paris (CAC 40)	4404.0	-1.3
Frankfurt (DAX)	5028.6	-0.3
Tokyo (NIKKEI 225)	11,520.8	-0.2
Hong Kong (Hang Seng)	11,768.3	2.4
Toronto (TSE 300)	7707.8	0.8
Mexico City (IPC)	7517.8	0.5

FUNDAMENTALS

	May 7	Week
S&P 500 Dividend Yield	1.49%	
S&P 500 P/E Ratio (Trailing 12 mos.)	44.4	
S&P 500 P/E Ratio (Next 12 mos.)*	18.8	
First Call Earnings Revision*	-0.86%	

*First Call Corp.

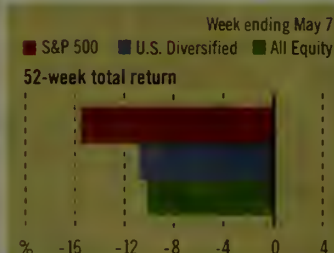
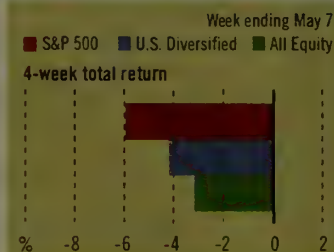
TECHNICAL INDICATORS

	May 7	Week
S&P 500 200-day average	1125.6	112
Stocks above 200-day average	71.0%	7
Options: Put/call ratio	0.80	0
Insiders: Vickers Sell/buy ratio	4.07	4

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Office Electronics	-26.0	Multi-Utilities
Multi-Utilities	-20.6	Computer Stge.
Internet Software	-13.3	Telecomms. Eq.
Biotechnology	-13.3	Wireless Service
Conglomerates	-12.9	Instrumentation

Mutual Funds



Data: Standard & Poor's

Interest Rates

KEY RATES

	May 8	Week
MONEY MARKET FUNDS		
90-DAY TREASURY BILLS	1.75	1.7
2-YEAR TREASURY NOTES	3.31	3.1
10-YEAR TREASURY NOTES	5.22	5.0
30-YEAR TREASURY BONDS	5.67	5.5
30-YEAR FIXED MORTGAGE†	6.80	6.7

†BancQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENT

Taxable equivalent yields on AAA-rated, tax-exempt bonds, assuming a 30% federal tax rate.

	10-yr. bon
GENERAL OBLIGATIONS	
TAXABLE EQUIVALENT	4.29%
TAXABLE EQUIVALENT	
INSURED REVENUE BONDS	6.13
TAXABLE EQUIVALENT	4.40
TAXABLE EQUIVALENT	6.29

THE WEEK AHEAD

RETAIL SALES Tuesday, May 14, 8:30 a.m. EDT

Retail sales in April are forecast to have risen 0.7%, while sales excluding autos probably increased 0.4%. That's based on the median forecast of economists surveyed by Standard & Poor's MMS, a unit of The McGraw-Hill Companies. March retail sales increased 0.2%, and sales minus vehicles grew 0.4%.

CONSUMER PRICE INDEX Wednesday, May 15, 8:30 a.m. EDT

Consumer prices for goods and services during April probably

increased 0.4%, after a 0.3% gain in March. Excluding food and energy, core prices in April are expected to have risen 0.2%, after inching up 0.1% in March.

BUSINESS INVENTORIES Wednesday, May 15, 8:30 a.m. EDT

Inventories very likely fell again during March, by 0.2%.

INDUSTRIAL PRODUCTION Wednesday, May 15, 9:15 a.m. EDT

Factory output in April is forecast to have grown 0.4%, after surging 0.7% in March. The average

operating rate probably reached in April, after rising to 75.4%.

NEW RESIDENTIAL CONSTRUCTION Friday, May 16, 8:30 a.m. EDT

Household construction probably slipped 1.2% in April from an annual rate of 1.63 million.

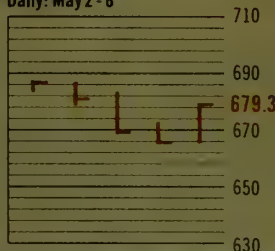
INTERNATIONAL TRADE Friday, May 16, 8:30 a.m. EDT

The trade deficit probably widened to \$31.8 billion in May as the strengthening economy has caused a trade gap to grow as imports

Nov.

May

Daily: May 2 - 8



Weekly

6% for the week, as investors fled from housing and health-care providers that dominate the into the handful of high-tech stocks on the index. Other disappointing performances were found 2%, and Calpine, down 12.8%, on concerns that energy traders may have to pay \$1 billion in nia for market tampering. On the bright side, H&R Block rose 15.7% on analysts' upgrades.

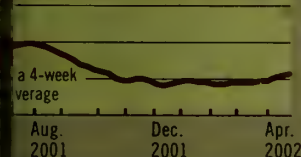
COMPANY PERFORMANCE

	% change		Rank	Company	% change	
	Week	Since 3/1/02			Week	Since 3/1/02
Johnson	-4.8	0.0	26	Tenet Healthcare	0.6	28.3
	1.6	4.3	27	Household International	-1.0	10.9
	-0.8	-9.3	28	WellPoint Health Networks	-3.1	22.7
	0.4	3.5	29	Washington Mutual	0.1	17.4
	-0.6	4.6	30	Duke Energy	-3.9	3.1
	-0.8	1.0	31	Kohl's	-2.3	5.9
	0.3	1.6	32	Bed Bath & Beyond	-4.1	6.0
	-1.4	-7.0	33	Cardinal Health	-0.3	6.1
	1.1	11.0	34	Centex	-4.6	-5.6
	-0.1	12.2	35	American Electric Power	0.6	4.8
Bergen Group	0.3	24.0	36	Golden West Financial	0.5	8.8
	4.2	15.5	37	Stryker	-1.4	-10.6
	-0.4	-7.3	38	Harley-Davidson	-0.1	4.2
	-0.7	-9.1	39	PepsiCo	-2.5	2.2
	-33.2	-56.4	40	Merck	2.4	-7.7
res	0.5	8.9	41	Apache	-2.0	9.5
	0.7	2.6	42	Amerada Hess	0.9	12.1
	-1.9	-5.4	43	KB Home	0.4	18.6
	15.7	-8.2	44	First Data	-2.5	-3.8
	-12.8	22.4	45	Tyco International	-0.9	-31.8
petroleum	-0.1	8.4	46	International Game Technology	-1.0	-7.9
	-3.7	-4.8	47	Capital One Financial	5.4	26.9
	-2.4	2.8	48	Electronic Data Systems	0.2	-6.7
	-2.4	4.2	49	Nabors Industries	-1.0	31.1
	1.8	-1.1	50	Xcel Energy	1.6	10.0

Production Index

Change from last week: 0.3%
Change from last year: -7.5%

OUTPUT Apr. 27 = 161.6 1992=100



index continued to rise. Before calculating the 4-week moving average, however, the index fell 1.5, from 163.2. On a seasonally adjusted basis, the only component to increase, was the electric power and truck assembly. Electric power and truck assembly were the largest declines. Rail-freight traffic, however, fell moderately, while crude-oil remained unchanged. The index for all of April, from 159.3 in March.

The index components is at www.businessweek.com.
Copyright 2002 by The McGraw-Hill

Online Resources

BW 50 Track the index and the companies in it all day long. Plus: our exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time market coverage and investment tools in partnership with Standard & Poor's.

MUTUAL FUNDS Search for funds, view BW ratings, and read Q&A's with fund managers.

COLUMNS Hot stocks, takeover plays, and the latest strategies for managing your money.

BusinessWeek online

For more investment data and the components of the production index, visit www.businessweek.com.

I was shocked to learn how much our electricity costs have been rising.

However, it is a cost you can control.

Do you know how much your company spends on electricity? I

didn't and I was shocked when I found out! The cost was much higher than I had expected, and climbing. Most consumers think that they can't do anything about increasing electricity costs, but they can!

In industry, electric motors consume 63 percent of all electricity used. By installing Baldor Super-E® motors, you can reduce your electricity use and save money every minute they're running. Call me to find out how Baldor premium efficient motors and drives can improve your company's profitability. You don't need to be shocked!

John McFarland
CEO, President
Baldor Electric Company

1-501-648-5665

BALDOR
MOTORS AND DRIVES
BALDOR ELECTRIC CO.
FT. SMITH, AR. MFG. IN U.S.A.

CAT NO.
SPEC

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Accenture (ACN) 45
Airbus Industrie 110
American Express (AXP) 148
American Pharmaceutical Partners (APPX) 151
Anheuser-Busch (BUD) 133
AOL Time Warner (AOL) 45, 57, 86
Arthur Andersen 12, 36, 46, 50, 123, 156
AstraZeneca (AZN) 132
AT&T (T) 26, 122, 130
AT&T Wireless (AWE) 130

B

Bain 58
Bank of America Securities (BAC) 56
Bank One (ONE) 122
Bank24 56
Banque Worms 56
Bayer (BAY) 132
Boeing (BA) 110, 156
Boise Cascade (BCC) 14
Bristol-Myers Squibb (BMJ) 48, 151
BT (BTY) 130

C

Cambridge Energy Research 46
Cameron Mackintosh International 12
Canon (CAJ) 58, 133
Cendant (CD) 48
CIBC World Markets 151
Cisco Systems (CSCO) 50
Citigroup (C) 44, 56, 86, 122
CNBC (GE) 18

Coca-Cola (KO) 50

Comcast (CMCSK) 26, 130
Compaq Computer (HPQ) 24, 64
Continental 56
Cramer Berkowitz 18
C.R. Bard (BCR) 150

D

DaimlerChrysler (DCX) 44, 56
Dell Computer (DELL) 45
Deloitte & Touche 110
Delta Air Lines (DAL) 14
Deutsche Bank (DB) 28, 56
Dow Jones (DJ) 18
Dresdner Bank (DRSDY) 56
Dynergy (DYN) 50

E

eBay (EBAY) 50
EchoStar Communications (DISH) 36
Electronic Data Systems (EDS) 48
Eli Lilly (LLY) 132
Enron (ENRNQ) 12, 22, 26, 36, 46, 64, 122, 123, 150, 156
Exxon Mobil (XOM) 86

F

Fahnestock 122
Fannie Mae (FNM) 60, 125
Favonius Ventures 32
Federal Express (FDX) 133
Fiat (FIA) 34
Ford (F) 86
Freddie Mac (FRE) 60, 125

G

Gartner Group (IT) 45
General Electric (GE) 22, 122, 123, 133
General Motors (GM) 38, 86, 133
Genuity (GENU) 133
Georgia-Pacific (GP) 50
Global Crossing (GBLXQ) 26, 46, 62, 64
Goldman Sachs (GS) 18, 42, 44, 122
Great Plains Software 50

H

H&R Block (HRB) 150
Handspring (HAND) 24
Hedge Fund Research 14
Heidelberger Zement 56
Hershey Foods (HSY) 14
Hewlett-Packard (HPQ) 45, 64
High Frequency Economics 42
Home Depot (HD) 48
Hughes Electronics (GMH) 36
Human Genome Sciences (HGSI) 132

I

Ibbotson Associates 60
IBM (IBM) 45, 86, 142
Illinois Tool Works 14
Ingersoll-Rand 142
ING Group (ING) 32
Intel (INTC) 86

J

Jefferies (JEF) 151

J. Jill (JILL) 151
Johnson Associates 42
J.P. Morgan Chase (JPM) 56, 122

K

Kmart (KM) 122
KPMG Consulting (KCIN) 50
KPMG International 40

L

Lehman Brothers (LEH) 122

M

Manpower (MAN) 42
Mars 14
McGraw-Hill (MHP) 152
MCI (MCIT) 62
M.D. Sass Investors Services 151
MediaOne 26
Mercer 42
Merck (MRK) 86
Merrill Lynch (MER) 36, 40, 44, 46, 125, 130, 142
Microsoft (MSFT) 36, 50
Morgan Stanley Dean Witter (MWD) 44, 45, 58, 60, 110

N

Nabisco (MO) 64
Navision 50
NBC (GE) 22
NCCI 122
Nestlé (NSRGY) 14
New England Consulting 42
Nike (NKE) 12
Nissan (NSANY) 58
Novartis (NVS) 50

O

Olstein Financial Alert Fund (OFALX) 142

Oppenheimer Capital 110
Oracle (ORCL) 42

P

Pacific Investment Management 125
Palm (PALM) 24
PepsiCo (PEP) 50
Pfizer (PFE) 132
PricewaterhouseCoopers 45, 123
Prudential Securities (PRU) 60, 86, 110

Q

Qwest Communications International (Q) 46, 130

R

Renault 58

S

Saint-Gobain 57
Salomon Smith Barney (C) 45
SAP (SAP) 50
SBC Communications (SBC) 55
Seagram (V) 57
Sidoti 151
Siebel Systems (SEBL) 50
Siemens (SI) 34
Software Spectrum (SSPE) 42
Sony (SNE) 24
Sotheby's (BID) 150
Southwest Airlines (LUV) 50
SpencerStuart 130
Sprint (FON) 130
Standard & Poor's (MHP) 57, 110, 152
Stanley Works (SWK) 142
Sumitomo Chemical 58

Sun Microsystems (SUNW) 45

T

Technology Bu Research 45
Telecom Italia
Tengasco (TGO)
TheStreet.com (TSCM) 18
3M (MMM) 86
TMP Worldwide
Executive Sea
Toyota (TM) 58
Trivest 122

Tyco International (TYC) 22, 86, 150

U

Unilever 32
United Parcel S (UPS) 122

Universal Mus 57

V

VeriSign (VRSN)
Vivendi Univer 57
Vodafone (VOD)

W

Wal-Mart Store (WMT) 86
Watson Wyatt Worldwide (W)
Wells Fargo (W) 12, 42, 86
Western Digita (WDC) 18
WorldCom (WC) 26

X

Xerox (XRX) 40

Z

Zurich Scudder Investments 5

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January, August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. rate \$54.95/year; Canada: CDN \$69/year. Periodicals postage paid at New York, N.Y., and at additional offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales No. 246484. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO. 80501.

ee inside



Required reading for the upwardly global.

Our rigorous scrutiny of a company's performance has now been applied to evaluating its brand. To reach c-titles eager to increase the worth of their brand, contact Geoff Dodge at 212-512-4611.

Issue date: 8/5. On sale: 7/26. Ad close: 7/8. www.businessweek.com

A CURE FOR EUROPE'S ILLS

The divisive issues tearing Europe apart—crime, race, poverty, politics—have many echoes for Americans who lived through the turbulent 1960s and '70s. Then, as now, the problems were seen as hopelessly intractable, the result of deep historic and powerful social forces. But the remarkably increased safety of America's city streets today and its sharp improvement in race relations should serve as encouragement in the face of a seemingly impossible task. Europe can learn much from the American experience, if it chooses to do so.

The parallels between the U.S. in the '60s and Europe today are not exact. Europe's current social problems stem, in part, from an increasingly Islamicized immigrant population that is ambivalent about integrating fully into secular French, Dutch, or German culture (page 32). At the same time, European societies are worried about integrating a large, culturally conservative group with a very different religion. America didn't have any of this. Its "outs" wanted "in." Plain and simple.

But the U.S. did have a terrible combination of crime, poverty, and racial tension that degraded life. Europe must deal with this same mix. It took two decades of effort to make the U.S. safer, including changes in cultural attitudes toward crime, a vast prison-building program, and, most important, a booming job market that integrated minorities into the economic system. None of this is yet happening in Europe.

For most of the '60s, street violence was tolerated and rationalized in New York, Los Angeles, and other cities as minor quality-of-life crimes that stemmed from social injustice, especially racism. Criminals were not seen as being personally responsible for their actions. Politicians and police put little effort into solving robberies, muggings, or threatening pan-

handling. There is a similar rationalization of crime to Europe's mainstream politicians and police. And people's pleas for protection are falling on deaf ears.

In the 1980s and especially the '90s, Americans' attitude toward crime shifted. They began to view criminals as personally responsible for their actions, not as passive victims of social injustice. Tougher criminal laws were passed, and a million criminals were taken off the streets. It was a conian move by world standards.

But it was jobs that really made U.S. streets safe. Economic growth created labor shortages, especially in the '90s. A tight labor market made welfare reform possible, integrating millions into mainstream society. Working salaries rose sharply, opening opportunities for the American underclass, especially African Americans and Hispanics. Job and investment started to reinvigorate old ghettos like New York's Harlem. The vicious cycle of poverty, crime, and crime was ameliorated.

It can happen in Europe, too. There is much talk in the European chattering classes that the 20% to 25% of the electorate who chose far-right candidates recently represented a backlash against globalization and a modern European identity. Maybe. But the central promises of modern society are safe streets and opportunity for all participants. Perhaps if Europe's political elite focused on the daily lives of ordinary people, they might get the consensus they need for a larger European Union. They could even persuade the alienated children of immigrants, who are turning to radical Islam that a secular European society has a place for them, too.

REGULATION: THE STATES' POWER GRAB

Be careful what you wish for. For years, conservatives in Washington preached the gospel of states' rights. But they didn't quite imagine that 50 separate states and their attorneys general would become a significant part of the 21st century business landscape. Today, New York State Attorney General Eliot Spitzer is leading the campaign against corrupt Wall Street stock analysts, as Securities & Exchange Commission chairman Harvey L. Pitt huffs and puffs to catch up. Missouri State Attorney General Jay Nixon, in the name of competition, is leading a coalition of 30 AGs against the merger of satellite TV giants Hughes Electronics Corp. and EchoStar Communications Corp. Nine AGs are pressing their own antitrust case against Microsoft Corp. And then there is California limiting auto emissions of carbon dioxide, Georgia and North Carolina curbing "predatory lending," and Maine capping drug price hikes. This is quite a bottom-up movement with a decidedly anti-Big Business tone to it (page 36).

The danger, of course, is that having the states make

their own regulatory policy risks balkanizing the labor market and hurting economic growth. As European countries integrate their many economies into one, America will be on its way toward disaggregating its huge economy into many. That would be a terrible mistake.

But a greater danger may lie in business ignoring the populist message. If states and their AGs can be made to speak for their local constituents, then people are likely to demand that they want greater honesty from Wall Street, closer real competition in cable- and satellite-TV markets, and more control over health care and drug prices.

The failure of federal regulators to check Enron Corp.'s apparent manipulation of California's energy market and the SEC's hesitancy to crack down on auditors and analysts makes federal regulatory efforts look all the more lame. If the business community and the SEC would do well to listen to popular sentiment, if only to preserve a unitary national market. Federalism could be very costly to business.



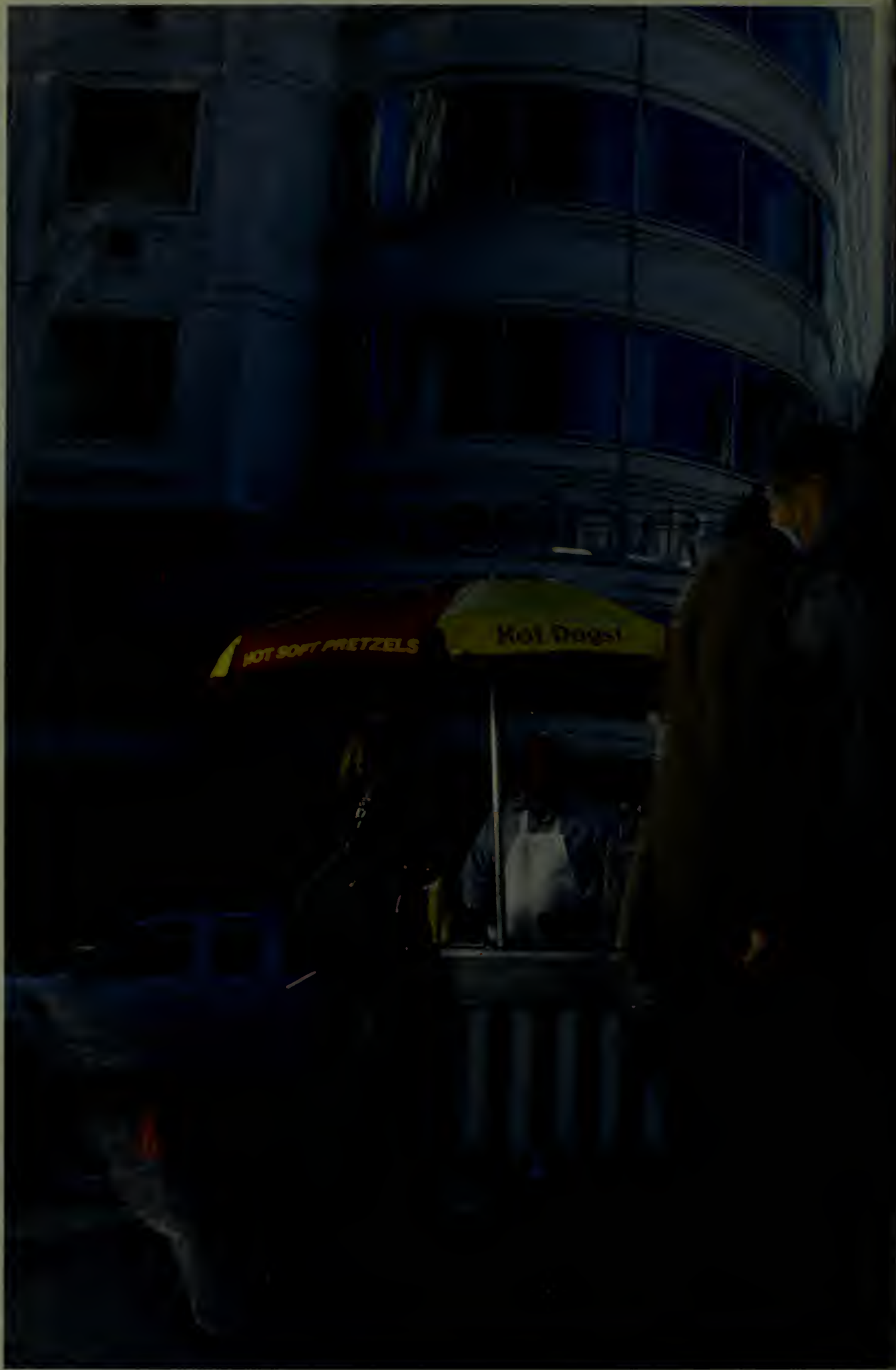
www.swissre.com

For most people the horizon is as far as they can see. But for us it represents the threshold to an unseen world of new opportunities. As one of the world's foremost managers of capital and risk, we are constantly searching for solutions that lie beyond the obvious. With financial and intellectual reservoirs of great depth and breadth to draw from, we combine insight, knowledge and original thinking to create new opportunities. We do it for ourselves. We can do it for you.

Solutions beyond the obvious.

Swiss Re







BusinessWeek

12

www.businessweek.com

UNTING
P'S NEW
ARDS

ENCE?

T
THEART
OR PHIL
JTZ?

CE
TEPHEN
AM AND
ICAL

XT
ER
ERICA

A CEO AND HIS SON

The remarkable
saga of
Howard Solomon,
his son Andrew,
and his company,
Forest Labs.

**A JOURNEY OF
DEPRESSION
AND HOPE**

PAGE 72

BGDD *****CAR-RT LOT**C030
LP000097 1#3024

|||||

BURLINGAME

INGAME PUBLIC I
PRIMROSE RD
INGAME CA

MAY 17 2002

LIBRARY



Way back in the late nineteenth century, Jules Verne, that master of science fiction, foresaw many of the technological wonders that are commonplace today. Everything from the submarine, to the airplane, to rocket travel in outer space. He also predicted that we'd have TV in another thousand years.

Yet, as far-reaching as Verne's imagination

was, even he would be somewhat astonished

at the many marvels there are to be

found in the Lexus ES 30

One of these marvels

would have to be the

available rain-sensing

windshield wiper system

(Captain Nemo might want

to take note of this one.) A sensor

employs reflected and emitted light to detect

the presence of raindrops on the windshield

RAIN-SENSING
WINDSHIELD WIPERS.
EVEN JULES VERNE DIDN'T SEE
THIS ONE COMING.



Not only does the system switch the wipers on and off, but it will measure the degree of precipitation and increase the wiper speed as necessary. So no matter what the conditions that you're facing, from a light drizzle to a heavy downpour, you are able to give the road ahead your full, undivided attention.

He would also find the available new Lexus DVD-based Navigation System quite fantastic.

This NAV system can verbally direct you to nearly any destination within the contiguous United States* via three different routes: the quickest, the shortest and an alternative route.

These are two examples of the new world of luxury that awaits you in the ES 300. A car that was built on the idea that every journey, whether it be to the center of the Earth, or to the center of town, ought to be unforgettable.

*Does an automobile delight, comfort, fascinate and energize you?
Visit lexus.com for a test drive. The Passionate Pursuit of Perfection.*



*Weather, traffic flow or other road system changes may affect the accuracy of the mapping software. Rely upon your common sense to decide whether or not to follow a specified route. Please wear seatbelts, secure children in rear seat, obey all speed laws and drive responsibly. For more information, call 800-USA-LEXUS (800-872-5398).

When's the last time anyone

"There is no doubt in my mind this is the best (and best-looking), fastest, most capable iMac of all time, as well as the best iMac value ever. This computer is so fine that even Windows users lust for it."

-Bob Levitus, in The Houston Chronicle

"Apple has yet again provided a Macintosh polish and elegance at prices the Windows world can't match."

-David Pogue, The New York Times

"... the new iMac proves a sequel can be better than the original."

-Matthew Fordahl, The Associated Press

"I've been seduced by a computer. Not just any computer, but the new iMac from Apple, the sleekest computer I've ever seen."

-Mike Wendland, The Detroit Free Press

t this way about a PC?

"When you're actually working on the new iMac, with the screen lowered so it sits between your face and the base, it's a thing of pure beauty. You feel as if you're typing onto a gorgeous palette that's floating in the air."

-Walter Mossberg, *The Wall Street Journal*

"It's the kind of thing you'd expect to see in an *Architectural Digest* photo shoot of Captain Kirk's bed table."

-Steven Levy, *Newsweek*

"Computer users of the world unite: You have nothing to lose but your eyestrain and stiff necks."

-Stephen Wildstrom, *Business Week*

"Yes, I love it, it's just too wonderful . . ."

-David Gelernter, *The New York Times*



The new iMac.



if it's not the future
of business

Wireless communication requires a compatible mobile phone or modem or a wirelessly enabled Palm handheld and the Palm.Net proprietary service, sold separately. Coverage not available in all areas. ©2002 Palm, Inc. All rights reserved. Palm.Net is a registered trademark and Palm and the Palm logo are trademarks of Palm, Inc. or its subsidiaries. Other products and brand names may be trademarks or registered trademarks of their respective owners.



it's a fiscally
sensible present.

The possibilities for mobile communications are infinite. At Palm, we help companies use the technology to deliver one very important thing: results. Like streamlined order fulfillment. Or simplified access to information. Or mobilized sales forces. With the help of top solutions providers that

include BEA, IBM, McKesson, and Siebel Systems, Palm delivers mobile solutions that make sense for business. For more on how we've helped deliver results, visit us at palm.com/enterprise and read our customer success stories and our total cost of ownership white paper.



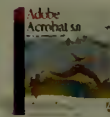
Name	Department	Location
Jessica Melnick	A1	15
Eori Kaldas	F5	2
Mark Gailbraith	F8	3
Sasha Faulkner	G13	2
Richard Gray	B4	8
Ali Mumtaz	H5	7
Ornifer Gardner	H2	4
NICOLE MARTIN	I1	8
Vivian Wang	A4	13
Brian Memmer	B4	9
Patrick O'Neill	C3	3
Carolyn Salgado	G10	2
David Murg	F2	9

Of course not.



route.pdf

Adobe Acrobat 5.0 makes reliable document distribution possible.



Please, remain seated. New Adobe® Acrobat 5.0 makes it easier to distribute documents—both internally and with the outside world. The full version of Adobe Acrobat 5.0 lets you deliver documents on time, looking exactly as intended. Simply convert all your documents to the universally recognized Adobe PDF format and your file is ready to e-mail or post online. Your document can be viewed, read and printed on a variety of hardware and software platforms with the free Adobe Acrobat Reader™—the one that millions of users already have. Adobe Acrobat 5.0 even includes our digital signature technology. Which gives you a more efficient way to get your critical documents signed and approved quickly. Try all that with a manila envelope. Go to www.adobe.com/fullacrobat



NO SERVICE
NEXT 96 MILES



Solaris Operating Environment

The fast road to deploying Java™ and XML-based services quickly and reliably.

On the road to Web services
a **system**
breakdown is
an invitation for
the buzzards.



Sun™ ONE

Open Net Environment

Reports from the road: Virgin Atlantic Airways.

The Solaris Operating Environment ensures that applications for Virgin Atlantic Airways – from Web-based frequent flier information to mission-critical flight operations – are easily manageable and readily available.

Reports from the road: Wingcast.

Thanks to Wingcast, cars will soon be equipped with wireless safety, communication and convenience services. Anticipating millions of wired vehicles to come, Wingcast wisely chose the Solaris 8 Operating Environment for its scalability and reliability.

Sun's associates for the ride.

Sun teams with some of the best systems integrators in the business providing the knowledge and experience you need to help you deploy your Web services on the Solaris platform today: Cap Gemini Ernst & Young, Deloitte Consulting, EDS, KPMG Consulting, Inc. and PricewaterhouseCoopers.

Act now to get your
free copy of Solaris 9 OE on DVD.

www.sun.com/solarisdvd

Offer valid while supplies last.

Keep your services engine running on all cylinders with the Solaris™ Operating Environment.

Once you get your Web services built, you're ready for the big road test: deployment. It doesn't matter how bulletproof your Web services are if they don't work all the time or if they're not secure. The Solaris™ OE is a secure, reliable way to protect your Web

services investment and your hard-earned reputation for dependable service. Solaris, supporting many of the largest Internet businesses, is the foundation of Sun™ ONE and provides a rock-solid application platform for any kind of Web service.



COVER STORY

DEPRESSION AND HOPE: A JOURNEY

When depression hit Andrew Solomon, his father was there for him. The experience would transform them and the drug company the elder Solomon runs page 72



BusinessWeek

MAY 27, 2002

Cover Story

72 A CEO AND HIS SON

Howard Solomon's life turned upside down in 1994 when his son Andrew fell into a deep depression. Howard, the CEO of drugmaker Forest Laboratories, became Andrew's nurse, advocate, and companion. In time the son would emerge from his melancholy and publish an acclaimed book about depression. And the father, all too familiar with the harrowing nature of the disease, would seek out and license a popular European antidepressant, called Celexa in the U.S. Celexa turned Forest into a major player and thrust Howard into the spotlight. Here is the story of how an often-misunderstood illness—and the journey back to health—transformed a family and a company

News: Analysis & Commentary

34 EARNINGS: BACK TO THE BASICS

Standard & Poor's new definition strips out a lot of extras—and makes many stocks look pricey. Reaction on Wall Street is mixed

36 COMMENTARY: CORE EARNINGS

Why better numbers really matter to companies and investors

38 AN INDUSTRY UNDER SUSPICION

Scrutiny of energy traders heats up as the damaging revelations continue to surface

40 COMMENTARY: TECH STOCKS

The runups at Cisco and elsewhere reveal a market more bullish on tech than tech execs are

42 APPLE: THINKING CORPORATE

The launch of its new server signals a strategic shift toward selling to business

44 THE RACE FOR CANCER DRUGS

If AstraZeneca's Iressa gets an FDA nod as early as June, ImClone's Erbitux will be left in the dust

46 TRAVEL'S SWIFT TRIP BACK

The industry thinks local and prospers, but business trips are still down

48 IN BUSINESS THIS WEEK

International Business

52 ASIA: THE NEXT OIL FRONTIER

How the U.S. and its oil giants are carving out a sphere of influence on Russia's borders

55 COMMENTARY: RUSSIA

Putin's quid pro quo for ties: Money to rebuild the

58 COMMENTARY: EUROPE

How to cure the Contin drugmakers

Economic Analysis

26 ECONOMIC VIEWPOINT: B

Cut gas use by axing the economy program and ra

30 ECONOMIC TRENDS

Unexpected tech strengt effect on music's supersta sector productivity surpr

31 BUSINESS OUTLOOK

U.S.: No double-dip in si Europe: Higher interest

Government

51 WASHINGTON OUTLOOK

The heat on SEC chief H is coming from both side

Social Issues

66 BACKLASH AGAINST BIG

A surprising coalition un rising prescription prices buying generic drugs



E-SAVVY
The ins and outs
of seeking
investment info
on the Web
page 98



BLACK GOLD
The Caspian Sea
is a wide-open
frontier for U.S. oil
giants page 52

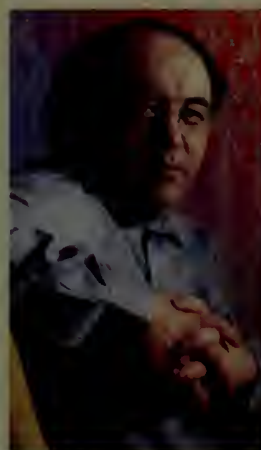
ATH
The earnings:
a clearer look page 34



N OLDIE
Maybach
relaunches the
old Maybach page 71



**QWEST
QUAGMIRE**
Rumblings
over Phil
Anschutz's
financial
dealings
page 90



**SIMPLE
SCIENCE**
Wolfram's
theories
may change
thinking on
nature and
the universe
page 92

ING A SECOND OPINION
employers are escalating cost
controls and asking workers to use
generics or other cheaper drugs

PS WAR
The push for generic drugs is just
the beginning of CEO Novelli's big
fight for the seniors' organization

Corporation

GE'S TRANSATLANTIC WOES
In a scandal-ridden year, the firm
may easily lose its No. 1 ranking in
many

ing

THE UBER MERCEDES
Maybach goes after the ultra-luxury
market by reviving the
legendary Maybach label

TURN THE SCREWS

Investors say the onerous terms
that corporate capitalists are demanding
from investors and entrepreneurs
mean, GET OUT, MOVE ON
For traders win with what's hot
and they don't bother asking why

86 FOLIOFN JOINS THE FAMILY
Steven Wallman is betting that
mutual-fund managers can sell his
baskets of stocks

Information Technology

- 25 WILDSTROM: TECHNOLOGY & YOU**
A new job for the electrical wiring
in your wall sockets: Networking
- 88 BEA: SURROUNDED BY GOLIATHS**
With IBM and Microsoft bearing
down, the server software outfit is
scrambling to roll out new products
- 90 A NEW STINK BOMB AT QWEST**
Its failed offspring QDM points up a
possible sweetheart deal for Phil
Anschutz

Science & Technology

- 92 RETHINKING SCIENCE**
Author Stephen Wolfram says
much of what we are taught about
nature and the universe is wrong
- 95 DEVELOPMENTS TO WATCH**
Intel's pocket video; prosthetic
retinas; smart robots; cleaner runoff

BusinessWeek Investor

- 98 ONLINE TRADING'S HIDDEN COSTS**
More brokers are slapping on
additional account fees, and some
are raising commissions
- 101 DIGGING DEEPER ON THE WEB**
Answers to common investor
questions about where to find
reliable information
- 103 BE YOUR OWN STOCKPICKER**
One reporter's search to find the
right stuff online
- 105 THE BARKER PORTFOLIO: TAXES**
Fidelity's gift to its mutual-fund
investors
- 107 MARCIAL: INSIDE WALL STREET**

Features

- 14 UP FRONT**
- 20 READERS REPORT**
- 24 BOOKS**
Magretta with Stone: *What
Management Is*
- 108 FIGURES OF THE WEEK**
- 110 INDEX TO COMPANIES**
- 114 EDITORIALS**

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

BusinessWeek online

Free to Subscribe

Go to www.businessweek.com and follow the instructions to register. Be sure to have an account number that appears on your BusinessWeek mailing label.

Updated every business day at www.businessweek.com

50

Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ PALM PLANS:

Chairman Eric Benhamou shares his strategy for a turnaround at the handheld maker



■ BEYOND "NO":

Rejected by the business school of your choice? BW's Jennifer Merritt has tips for making it a "yes"



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your handheld! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the May 27, 2002, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/02_21/online.htm

A Simple Solution?

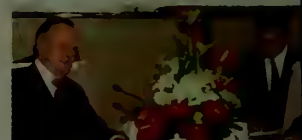
What if Israel dismantled one settlement in occupied lands for each month that passes with no Palestinian violence? That's the plan put forward by Gal Luft, a lieutenant colonel in the Israeli Defense Force Reserves



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

China Journal: In Tianjin, Bush Sr. says he spoke for his son in welcoming warmer ties with Beijing



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Street Wise: E*Trade has cut costs to combat slow trading volume. Despite a diversified business, it could be in for a bumpy ride

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Work & Family: A living trust is a simple goal, but the process requires careful planning



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Street Wise: Gateway's best hope for profitability may be as a smaller player in the PC market



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

B-School News: Good thing the new dean of Stanford's Haas School, Thomas Campbell, is a former GOP pol and ace fund-raiser

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Analysis: In a bold move, Indonesian President Megawati is finally rounding up home-grown terrorist suspects

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Employment Trends: After the recent boom and bust in payroll, companies are making their workforces more flexible and efficient

BusinessWeek tv

TUNE IN THIS WEEKEND FOR:

A guide to online investing

Jobs for college graduates

Developments to watch: Wi-Fi



**You are the only one
in the world who
can do what you do.**



Now if you could just get the rest of the world to see it. No matter what size your company is, you can continually present yourself in a confident, professional light with brilliant output from HP color printers. HP invents the kind of powerful, flexible technology that can easily help any size business make a big impression. Solutions that always start with you—your issues, your challenges, your opportunities. How do you want to be remembered? Find out more about our entire line of HP color printers at www.hp.com/go/smbprinters.

Up Front

EDITED BY SHERIDAN PRASSO

TALKING HEADS

YOU'RE EITHER FOR LOU—OR AGIN' HIM

LOUIS RUKEYSER IS KNOWN AS the ultimate bull. But is he also a bully? After being fired in March after 32 years hosting PBS's *Wall Street Week with Louis Rukeyser*, he launched a new show on CNBC. But you won't see any of Lou's panelists, such as money manager Martin Zweig or UBS Paine-Webber's Mary Farrell, on the old show, to be called *Wall Street Week with Fortune*.

Some panelists say they would love to appear on the PBS show, which has three times the audience as the CNBC show, except for what one snidely calls "the Lou factor." "The word is that if you appear anywhere near the *Fortune* show, you're not welcome on Lou's CNBC show," says a panelist who requested anonymity. "You're probably setting yourself up for a public tongue-lashing by him, too." A spokesman for Maryland Public Television, which produces *Wall Street Week*, doesn't deny being rebuffed, saying, "An atmosphere has been created that's uncomfortable."



RUKEYSER: *Loyal crew?*

A Rukeyser spokesman says Lou never asked panelists to boycott. Lou recently proclaimed in his newsletter: "Every one of my 22 panelists, unprompted by me in any way, independently snubbed their noses at Maryland Public Television and said they would stick with Lou."

Meanwhile, some folks are taking glee in appearing on PBS—bearish panelists who got canned by Rukeyser in the late '90s, such as James Grant, editor of *Grant's Interest Rate Observer*. He was on the first *Wall Street Week* sans Rukeyser on Mar. 29. Grant says he phoned Rukeyser to tell him. "What could he say?" says Grant. "He told me he'd be much happier if I didn't do it." Fat chance.

Marcia Vickers

THE LIST HIGH-FLYING

Members of an airline's board of directors often get free plane travel. These directors racked up the most in free flights last year:

DIRECTOR	AIRLINE	VALUE OF FREE TRAVEL
PAUL TIERNEY JR. Partner, Darwin Capital Partners	UNITED	\$76,847
JUDITH RODIN President, University of Pennsylvania	AMERICAN	49,784
HILDA OCHOA-BRILLEMBOURG President, Strategic Investment Management	US AIRWAYS	31,894
RICHARD KRAEMER President, Chartwell Capital	AMERICA WEST	13,953
ALFRED CHECCHI Former Northwest Chairman	NORTHWEST	5,898

Figures include cost of transportation for directors and their families and reimbursement for federal tax liability Delta, Southwest, and Continental do not break out data
Data: Proxy statements



TALK SHOW "I obstructed justice."

—Former Arthur Andersen partner David Duncan, testifying the Andersen trial

CUBA LIBRE

CASTRO: SOY PRESIDENTE

EVER GET A HANKERING FOR soy spaghetti after midnight? Fidel Castro did—as Allen Andreas, chairman of Archer Daniels Midland, found out at a dinner in late April. As one of dozens of execs flocking to Havana to try to increase sales, Andreas presented the Cuban leader with a basket of soy products, including spaghetti, candles, and taco mix. Castro gave the spaghetti to his chef to prepare with tomato sauce—and ate three helpings, even though the dinner, which lasted till 4 a.m., also featured lobster and suckling pig. "He was fascinated by it," says fellow diner Tony DeLio, ADM's vice-president for marketing.

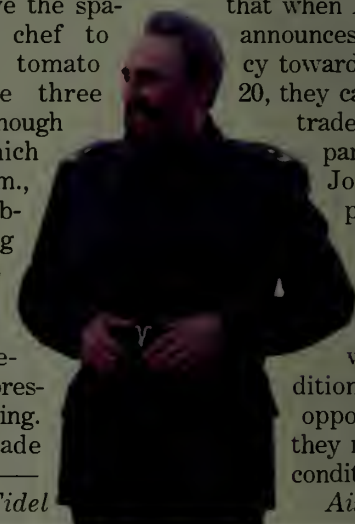
The U.S. trade

HUNGRY MAN: Fidel

embargo allows Cuba to chase only essentials such as food and medicine and only in cash. Cuba bought its first U.S. food in 40 years months ago, following the abatement of Hurricane Mitch. Since then, sales have risen to a total of \$90 million mostly staples—corn, chicken, and wheat. But execs have been flying more exotic fare: apple from Washington State, cabernet sauvignon from California, and, yes, soy spaghetti.

A U.S. food corporation that when President Bush announces his new policy toward Cuba in 2002, they can continue to trade and eventually expand it. Even John Kerry, presidential candidate, U.S.-Cuba Trade & Economic Council: "There will be so many additional commercial opportunities they may have under these conditions."

Aixa M. Padilla



PRODUCT PEEK

DON'T LIGHT UP, DRINK UP

IT TASTES LIKE TAP WATER but has a slightly peppery aftertaste. And soon, it will be sold in drugstores around the country. Yet another entry to the shelves alongside Evian and Dasani, you ask? Well, yes—but with a kick. The latest nicotine-delivery vehicle, joining gum and the patch, is bottled water.

Promoters say Nico Water isn't meant to help people quit smoking. "When you can't have a cigarette in a restaurant, when you can't have a cigarette at home because of children, this is what the product is designed for," says Tim

Owens, CEO of Quick Nico Water's manufacturer. The \$2, half-liter bottle will be available with 2 mg of nicotine—the same as nicotine gum—and buyers must be 18 or older. There has been a call for regulation by the Campaign for Tobacco-Free Kids, but the Food and Drug Administration has yet responded. CVS, Walgreens, and Walgreen's start selling Nico Water in July, says Mark Thompson, an investor who spent six years developing it.

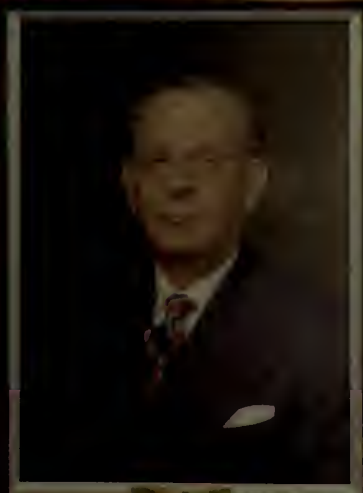
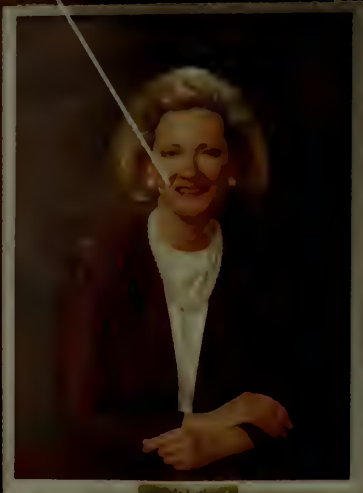
But does it work? "It's strong stuff," says a *BusinessWeek* employee who tried it. "I felt so nicotine'd I wouldn't have wanted a cigarette."

Kimberly



I hear our company now has real-time wireless access to all our critical network data, like customer files.

Imagine how successful we could have been with that kind of network access.



What's a network?

Wireless Business Solutions. Now you'll never have to say "Imagine what I could have" because you'll be busy doing it. And it's not just having the Internet on your phone; real-time access to customer data, pricing, inventory. Whatever drives your business. Anywhere. On a variety of devices. And it's all possible because only Nextel has a wireless network designed specifically to carry both voice and data. Call toll free NEXTELC, or visit nextel.com/WBS to see how we can help you outmaneuver your competition.

WIRELESS
BUSINESS SOLUTIONS

NEXTEL



Up Front

UNREAL ESTATE

GOLDEN TOWERS—OR WHITE ELEPHANTS?

AT 70 STORIES, THE FOUR Seasons Hotel & Tower will be the tallest building in Miami. At this rate, it's also going to be the emptiest. The developer, Millennium Partners, has presold only 2 of 186 luxury condos that will top the building when it's finished in 2003. The rising skeleton sends a warning: The three-year boom in luxury high-rise condos is over.

Buyers are steering clear, leaving half- or near-empty towers from Boston to San Francisco. In Chicago, where 4,200 condos remain unsold, some developers are waiving six months of mortgage payments to attract buyers. Prices in New York fell 12%—to an average of \$1.3 million—in 2001. "The high-end market is underperforming the housing market as a

FOUR SEASONS: Few sales

whole, and it's only going to get weaker," says Mark Zandi of consultant Economy.com. Rich buyers, with battered stock portfolios and uncertainty about a recovery, have lost interest in trophy buildings, says Zandi.

A Millennium Partners spokesman says the company is confident the Miami project will take off. Still, it's not taking chances. It slashed prices by up to 25% on its priciest, \$2 million units. No fun owning the tallest building south of Atlanta if it's empty. *Charles Haddad*

GLOBALIZATION

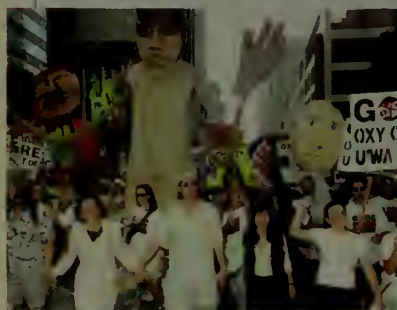
OCCIDENTAL'S FIELD OF BAD DREAMS

A DECADE-LONG STRUGGLE between Occidental Petroleum and indigenous people in Colombia who once threatened to commit mass suicide is over. Occidental revealed on May 3 that it had re-

billion barrels of oil, lies near land claimed by Colombia's U'wa people, who believe oil is the "blood" of the earth. Aided by environmental activists, the U'wa fought Occidental in Colombia's Supreme Court, staged protests, and appeared at Occidental shareholder meetings in Los Angeles in native garb.

The activists are claiming victory. "Occidental has to have considered the tremendous black eye that they received over this," says Kevin Koenig, a campaigner at Amazon Watch. But Occidental says its decision to leave was strictly business. In other words, Occidental drilled the site and found nothing there. "It was a dry hole," says spokesman Larry Meriame.

So much for that debate. *Christopher Palmeri*



U'WA SUPPORTERS in L.A.

turned the rights to drill on a 500,000-acre field in northeastern Colombia to the government after taking a \$66 million write-off.

The field, once thought to have contained more than a

DRAWN & QUARTERED



RETAIL TALES

A PROFOUND FASHION STATEMENT

A GRIM LATE-APRIL WEEKEND in Hong Kong saw seven suicides—plus the deaths of three children along with their suicidal mothers—in a city of 7 million people. With Hong Kong's economy sputtering and unemployment running at a record 7%, men and women alike have been turning to "Treasure life" the ultimate exit.



IN HONG KONG: "Treasure life"

So a local retailer—Peter Lau, chairman of the low-cost Giordano clothing chain that is Hong Kong's version of Gap—wanted to do something. On Apr. 24, he rushed 8,000 antisuicide T-shirts into production. The bold, bright-

ly colored shirts emblazoned with "Treasure life" sold out in three weeks. It was "too depressing when the news began taking the lives of children," says Lau. He sent \$15,000 proceeds to a charity for The Samaritans, that suicidal people to call for help.

Giordano's history of T-shirts including messages like "It's for Jimmy Lai" left the company under pressure from China. In 1996, printed shirts in support of pro-democracy protesters in Tiananmen Square in 1989 and sent the proceeds. Times change, but Giordano is still showing its not your average retailer. *Mark L. C.*

THE BIG PICTURE

HOW MUCH???

Homeowners often underestimate home-improvement costs

ADD DECK/PATIO

\$4,346

\$5,865

ESTIMATED COST

ACTUAL COST

ADD EXTRA ROOM

\$16,607

REMODEL KITCHEN

\$18,658



TELEPHONE INTERVIEWS WITH 668 HOMEOWNERS, MAR. 8-12, 2002

Data: International Communication Research, Champion Mortgage, Remodeling Magazine

Polls, surveys, and other items for consideration in this section should be sent to upfront@businessweek.com



x7



TOWN & COUNTRY

Elevate the art of the piggyback with seating for seven, the industry's only remote power dual sliding doors and liftgate,* and Three-Zone Automatic Temperature Control System. For more, 1.800.CHRYSLER or visit chrysler.com.

CHRYSLER

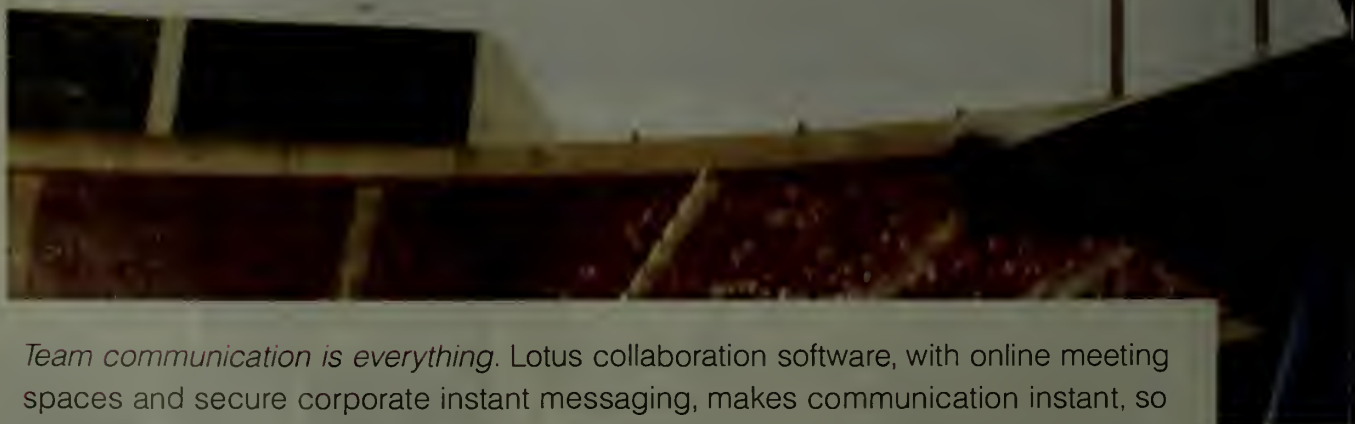


Drive = Love

*Available on select Town & Country models.

Lotus. software

WINNING TAKES MORE THAN TEAM CHEMISTRY. IT TAKES TEAM SOFTWARE



Team communication is everything. Lotus collaboration software, with online meeting spaces and secure corporate instant messaging, makes communication instant, so every project goes down in the "win" column. Lotus. Part of our winning software team, along with DB2®, Tivoli® and WebSphere®. Check out our Webcast at ibm.com/lotus/team

© 2002 IBM Corporation. All rights reserved. IBM, DB2, Lotus, Tivoli, WebSphere, the e-business logo and e-business are trademarks of International Business Machines Corporation in the United States and/or other countries. Lotus Software, Inc.

Registered trademark of Lotus Software, Inc.



@business is the game. Play to win.™

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS:
 Joyce Barnathan, Frank J. Comes, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Arnst, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Peter Elstrom, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Margaret Popper, William Wolman, Seymour Zucker (Sr. contributing eds.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); Robin Ajello, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Dan Beucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khermouch, Julia Lichtblau, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: David Rocks. E-Business: Timothy J. Mullane. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Spencer E. Ante, Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. News: John Protos. People: Susan Berfield. Personal Finance: Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.), Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports business)
STAFF EDITORS: Lewis Braham, Jeanette Brown, Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Tim Belknap, Aleta Davies, Doug Royalty (Sr.); Giles Blunt, Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Malka Percal, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Nigel Cruickshank, Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Dauris Allen, Joe Calviello, Roger Kenny, Stephen Kenny, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Nita Le, Rich Michiel, Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper, (Assoc.); Lucy Conticello, Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.). Karen Butcher, Francisco Cardoza, Thomas R. Dowd, Stephen R. Lebron, Kim Maenak, Jose L. Martin, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Y. Steve Ben-Ari, Steven McCarthy, Anoop Srivastava, Craig Sturgis, Mauro Vaisman
ONLINE: Michael Mercuno (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clark, John A. Dierdorff, John Johnsrud; Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Tony Cracolice, Roger Franklin, Brian Hinde, Brian Kelly, Olga Kharif, B. Kite, Matt Kopit, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Amy Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj, Eric Wahlgren, Heesun Wee
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad, Aixa Pascual. Boston: William C. Symonds (Mgr.), Faith Keenan, Geoffrey Smith. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Julie Forster, Pallavi Gogoi, Darnell Little. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), Joann Muller, David Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmieri (Sr. correspondents), Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Hirmelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Borror, Dan Carney, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Wellert, Catherine Yang; Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.). Stephen Baker, Carol Matlack, Andy Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ilhwan. Singapore: Michael Shan (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Robert Pondiscio (Director), Heather Carpenter, Christine Fontaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director), Susan Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

WHERE SHOULD THE BUCK STOP?

Our May 6 Cover Story, "How to fix corporate governance," drew a wide variety of reader comments relating to executives, boards, shareholders, auditors, and lawyers, plus many additional suggestions for reform.

A FAILURE OF LEADERSHIP

"How to fix corporate governance" misses the point. A competent leader is responsible for the organization and responsible to its owners. If leaders are doing their job, then disasters such as Enron cannot occur. Competent leaders would not allow the topics you mention—accounting, executive pay, the board, and leadership—to be handled in a way that is not accurate, equitable, responsible, and effective. External solutions such as changing or adding rules will not improve the internal leadership, nor fix, in any meaningful terms, the problem.

Tom Rancich
 Vineyard Haven, Mass.

BEEFING UP CORPORATE BOARDS

Your suggested remedies do not go far enough to eradicate the now deeply implanted feelings of CEOs that they must become centimillionaires or billionaires within a few years and that anything else is of secondary importance. The federal U.S. corporation laws must be changed in a hurry [to] either abolish boards or ensure that board members are solely nonexecutive outsiders, including the chairman. Only shareholders

should be able to submit candidates appoint the directors. If boards exist, all, directors should serve for a minimum of five years, and CEOs must down after seven years. And whether board exists or not, the CEO and should be personally responsible for accuracy of financials and should be able to the company if they have exceeded the prudent man's rule to be interpreted in a narrow manner.

Heinz L. Gundlach
 Palm Beach, Fla.

The suggestion to limit boards to two insiders would be a major improvement for some companies, but there should be no insiders sitting on boards of directors. Granted, the president and CFO must attend board meetings to provide necessary information, but they should not and must not vote.

Joe C. Cooney
 San Diego, Calif.

The chairman of the board and CEO should never be the same person. There should be no more stories about "Chairman" and CEO Jack Welch dominating a new "Chairman" and CEO Jeffrey Immelt.

Eric J. Egan
 New York, N.Y.

I applaud your cover story but find your punitive recommendations for reforming corporate boards disheartening. While too many of the bad actors cite (top executives, auditors, anal-



PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VPS, SALES: Mark A. Flinn (Northeast region and BWT), Karen Christiansen (Southeast reg.), Grant A. Getz (Midwest reg.), Robert J. Maund (West reg.)

VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carr
VP, STRATEGIC PLANNING: Kimberly Greer
VP, STRATEGIC PROGRAMS: Jim Richardson
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, MARKETING: Patricia Crocker France
VP, CONSUMER MARKETING: Joyce Swingle

The McGraw-Hill Companies

BusinessWeek
 MAY 27, 2002 (ISSN 0007-7135) *** 3784
 Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).
 Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127033; Intl. 2360127039. U.S. subscription rate \$54.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies/back issues, \$9.95. Call 1-800-288-9867 or email: busweek@mcgraw-hill.com. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579.
Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO 80522-3235. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Registered for GST as The McGraw-Hill Companies, Inc. GST #R123075673.

Copyright 2002 by The McGraw-Hill Companies, Inc. All rights reserved. registered in U.S. Patent Office. European Circulation Center, Met House, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 924014.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw II, President, and Chief Executive Officer; Kenneth M. Vittor, Executive President and General Counsel; Robert J. Bahash, Executive Vice President, Chief Financial Officer; Frank D. Penglase, Senior Vice President, Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$1.00 per copy of each article. Send payment to CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address reprint requests to The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135. PRINTED IN THE U.S.A.

SAMSUNG

Makes you want to call your mother-in-law just to chat.

©2002 Samsung Telecommunications America

Any excuse
to use it.

The Samsung a400 is as high tech as it is sleek. But be careful, using it may cause positive changes in your behavior.

- Downloadable images and ringers
- GPS enabled
- Wireless Internet access

Still need an excuse to get one?
Visit www.samsungusa.com/wireless
or call 1-800-SAMSUNG.

Available at:

 **Sprint Store**
The PCS Center

 **RadioShack**

 **BEST
BUY**

 **circuit
city**

 **SAMSUNG DIGITall**
everyone's invited

Readers Report

are tempted by huge financial gains, even today's best-paid board members make tip money by comparison.

The directors I work with have not shown themselves to be the clueless, sleepy CEO lapdogs painted in your criticisms. Instead, they are aware, active fiduciaries, frustrated more than even the most vocal investor activists over the built-in failings of our current system. Too little time for governance, too little information, and a conflicting, ever-growing job description leave even the best boards outmatched by management. Without a total rethinking of the nuts and bolts of how boards function, directors will remain hopelessly outclassed amateurs competing in a professional league.

Ralph D. Ward
Riverdale, Mich.

Editor's note: The writer is publisher of Boardroom Insider newsletter.

ENDING THE NUMBERS GAME

Generally accepted accounting principles (GAAP) are a moving target, subject to constant lobbying pressure by business, labor, and politicians. What is needed is a simple, unambiguous opinion by the auditor that [a company's] financial statements are a fair presentation, in all material respects, of its financial status. Presumably the "independent" auditor's opinion as to fairness cannot be subverted by these groups.

George Barratt
Rancho Palo Verdes, Calif.

The recession gave many firms an opportunity to clean up their books following years of accounting gimmicks. But this is only a momentary reprieve. Eventually the market will have to accept that uncertainty is a part of business and adjust its expectations for risk accordingly. Then CEOs could be more honest about earnings and not be put in the position of engaging in period-to-period tactical manipulations of earnings in order to dodge short-term risk.

Robert M. Wisman
East Lansing, Mich.

EMPOWERING STOCKHOLDERS

The individual investor, having been sandbagged by the corporations and the analysts, is sitting on his hands. You refer to "shame" in "Corporate Governance: The road back" (Editorials, May 6) as possibly an effective method for getting us back on track. I'm afraid our current culture doesn't put much stock in shame. Money and power are the

goals of our time, and remorse is for the fainthearted. It's going to take more than legislation or "bully pulpits" to rebuild public confidence in American business and the securities markets.

Melvyn S. Rifkind
Encino, Calif.

Executives have access to information concerning the future prospects of their company that analysts and investors do not have. Put any spin on this that you wish, but this is indeed a form of insider trading. Some regulations and company policies allow upwards of 120 days before publicizing these transactions. This puts investors months behind in knowing when material activity is affecting their investment. Given the opportunity, I'd sell my options at known peak prices, too.

Murray Hawthorne
Utica, N.Y.

As mutual funds accumulated larger and larger percentages of stocks, the controls of stockholders decreased. Funds are interested only in price appreciation, and show no signs of fiduciary responsibility. This leaves management free to operate in its own interest. If one were to ban fund voting and count the votes only of individual stockholders, you might get a better picture of stockholder opinions.

Robert Miller
Elmhurst, Ill.

CURBING INFLATED EXECUTIVE PAY

As a graduate in literature of Bard College and as a lawyer who specializes in executive compensation, I would like to set the record straight about an often misconstrued and misquoted concept of Plato.

Simply put, Plato's concept was that no member of society (i.e., property owners) should amass or possess more wealth (i.e., property) than four or five times the wealth of the lowest member of such society. This related to politics, power, corruption, and general societal "checks and balances" in ancient times. If this concept were applied today, then the compensation of not just CEOs but also of entertainers, politicians, athletes, writers, artists, inventors, etc. should be added to the mix.

Stewart Reifler
New York

A JOB FOR THE LAWYERS

In my corporate career, the attorneys both in-house and outside were expect-

ed to step up to management if felt a corporate action was whether ethically or legally. In the spect, their role was more important than that of the auditors. Where they? Surely, they knew what was on if they drafted the partnership agreements, wrote 401(k) instrument, approved the executive contracts

Tom
H

Lawyers are not hired by business to protect shareholders but to protect management with the perennial concern "defensible positions." Auditors are making reference to the fact that are using data given by management. Good faith is sufficient to validate. We do not need new laws or more oversight. What we need is accountability, harsh time for violators, and rigid enforcement of the rights of shareholders.

Juan A. Ve
Coral Gable

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives starting in 1991 are available on the World Wide

www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

All letters must include an address and daytime/evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in electronic and print editions.

Mail: *BusinessWeek*, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

Fax: (212) 512-6458

Email: bwreader@businessweek.com

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>
(click "Manage Your Account")

For individual subscriptions, corporate subscriptions and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

Email: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

Email: bw_group@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

Email: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use, \$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)
Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

Email: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm

GIDDY-UP



Our color printer is faster than 90% of today's office printers. And any business can afford it. There's a new way to look at it.

of today's office printers can't outrun us.* Xerox Phaser® 860 network color printer gives 6 full color pages a minute with an industry-leading first-page-out of only 10 seconds. We're talking about vibrant color up to 1200 dpi from a printer starting at \$1999 including Black Ink



for Life.® Imagine the savings. But then again, helping you run your office efficiently is what our full line of network color printers is all about. To learn more about the Phaser 860 so many are racing to, call 1-877-362-6567 ext. 1849 or visit xerox.com/officeprinting/zebra1849



THE DOCUMENT COMPANY
XEROX.

*Based on current market data by IDC. †Estimated U.S. retail price. Reseller price may vary. Maximum 5 boxes of ink per month per unique serial number. Copyright © 2002 XEROX CORPORATION. All rights reserved. Xerox®, The Document Company®, Phaser® and There's a new way to look at it are registered trademarks of XEROX CORPORATION. 36USC220506

WHAT MANAGEMENT IS

How It Works and Why It's Everyone's Business

By Joan Magretta with Nan Stone

Free Press • 244pp • \$25

A ROAD MAP BACK TO BUSINESS BASICS

Part of the fallout from Enron Corp.'s meltdown is the near-total collapse of the management guru market. Business book sales have plummeted. The lecture circuit for management speakers has fallen apart. And there's no new Big Idea that consulting firms can trot out to generate much enthusiasm or business.

The slump in the market for management ideas is a natural outcome of the cynicism that pervades today's business world. But it can also be attributed to the lousy track record of management thinkers, whose buzzwords and half-baked theories have often proved little more than fads. The praise heaped on Enron by so many self-styled management sages only served to undermine their credibility further. The last big idea, e-business, greatly underdelivered on its promise, largely because too many organizations misapplied the technology. It hasn't helped that in recent years the literature of management has neatly fallen into one of two trash bins: densely written, unedited abstraction or, even worse, trite and irrelevant parables created for brain-dead managers.

Into this unwelcoming market comes *What Management Is*, a slim volume with a dull-looking cover and an unappetizing title. Its release could not have been more timely. At a moment when many are disillusioned by the blatant self-interest of outrageously paid business leaders, this book is an urgent call to get back to the basics. It reminds us why the discipline of management truly matters. It rejects the notion that a simple fad can make a meaningful difference.

Rarely has anyone so succinctly and engagingly presented the core principles of managing in a single book. Written by Joan Magretta with Nan Stone, both former *Harvard Business Review*

editors, this text is a model of clarity and thoroughness.

Readers are taken on a relatively jargon-free journey through the wisdom and ideas of some of the world's greatest management savants and their landmark thinking, from Peter Drucker to Michael Porter. We visit a wide range of successful companies—eBay Inc. and Toyota Motor Corp., to name just two. And along the way, readers gain an understanding of the essentials: why and how people work together, and what role management plays.

The author's take on getting the most from employees is remarkably perceptive. Most people, she notes, are deeply and rightly resistant to being managed. "In fact, the real insight about managing people is that, ultimately, you don't. The best performers are people who know enough and care enough to manage themselves," Magretta writes. It's why culture, trust in leadership, and respect for the individual are so important to any organization.

Magretta also makes the point that all organizations must match their design to their missions. Consider India's Aravind Eye Hospital in Madurai, which performs 180,000 cataract operations each year at \$10 a procedure—a fraction of the \$1,650 cost in the U.S. The hospital's mission and organization are comparable to Henry Ford's high-volume, superefficient assembly-line process that produced the Model T. From patient screening to the surgery itself, every step has been standardized to provide high-quality, low-cost eye care, and the hospital created its own lab to make intraocular lenses, needed for these procedures. The result is that the organization's design allowed it to fulfill its

mission of providing affordable eye care to the masses.

After all, Magretta points out, is no one best way to organize. Scope, and structure all depend on an organization is trying to do. Organizations are the means to ends, not ends in themselves. They exist to serve the needs of people outside them. They are where we come together to accomplish something that none of us could achieve alone. This is a simple concept, but one that was forgotten by many in the boom of the late 1990s.

The author also explains that performance is all about realizing the mission of a company. That's why it's critical to define performance in a way that makes an organization's objectives clear to everyone. Nonprofit foundations, she notes, often report the

number of grants they've been awarded rather than the outcome those grants are designed to produce. They measure directly related performance.

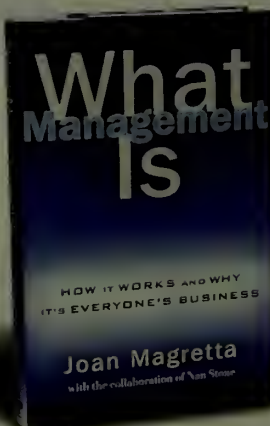
The New York City Police Dept. had to learn the same lesson. In years when the NYPD measured its performance by tracking things as the number of officers walking the beat or the number of emergency

calls answered. Neither measure could tell the city's leaders whether the department was achieving its goal of reducing crime. Then, new measures, implemented in the 1990s, counted the portion of people arrested and sentenced in connection with misdemeanors. Correlating those numbers with crime rates. This proved a much better way to gauge effectiveness.

What Management Is won't tell you how to manage better in the next year. It won't make anyone a one-man manager. But it will help leaders understand better how the ideas that form the foundation of good management have, in Magretta's words, "powerfully altered our economy and our lives." That's a potent message in this disorienting time.

BY JOHN A. E.

Senior Writer Byrne covers management issues.



MAGRETTA'S CLEAR DEPICTION OF THE POWER OF GOOD MANAGEMENT COMES AT THE RIGHT TIME

STEPHEN H. WILDSTROM
 you@businessweek.com

NEW JOB FOR WALL SOCKETS: NETWORKING



electrical
 ing in your
 ne can now
 used to
 ttle data.
 it's not
 ap...yet

I have a problem at home. More and more networked entertainment products, such as the SONICblue Replay TV 4000 and the Hewlett-Packard de100c Digital Entertainment Center, need an Internet connection to download content and program guides. But I don't have a network connection in my home theater, if so grandiose a term can apply to a room barely big enough for a TV set, some audio and video gear, and a sofa.

Normally, I rely on Wi-Fi wireless Ethernet, but the entertainment gear isn't wireless-ready. And I didn't want to run Ethernet cable down a floor and across the length of the house. But a new technology called HomePlug power-line networking, which sends data down the electrical wiring of your house and turns any AC outlet into a network jack, turned out to be a simple solution to a vexing problem. And while I used it to extend an existing network, it will do just as well as the main way to link computers in a home.

I hooked up to my home's power lines with some HomePlug adapters from Linksys. They come in two varieties. One, called the PowerLine EtherFast 10/100 Bridge, is designed to connect to anything that has a standard Ethernet port, typically either a computer or a router or hub on an existing network. The second, the PowerLine USB Adapter, is designed for computers that lack built-in Ethernet ports, but is otherwise similar. Both are priced at a fairly stiff \$150 apiece, but that price is likely to fall as production rises and additional producers enter the market. Linksys also plans to offer a \$180 router that could directly link a cable or DSL modem to a power-line network. Currently, you need a router and a bridge to use power-line networking for a broadband connection.

Setup is simple for both adapters. You plug a computer directly into each HomePlug unit and

set a password. Without this protection, there's a possibility that neighbors served by the same utility-company transformer could get into your network. Once all the HomePlug units have a common password, they can communicate through any power outlet in your house. I found that it worked seamlessly and speedy enough to get the full effect of a broadband connection. If only the adapters, which are big power bricks, nearly 7 inches long and 4 inches wide, looked good, too. Unfortunately, the circuitry required to separate the signal from the potentially lethal AC current makes these devices hard to miniaturize.

It's important, incidentally, to not plug the adapters into surge protectors, which can filter out the data signals. The effects range from seriously slowing down the data to stopping it altogether.

The idea of using power lines for networking has been around for a long time. After all, there are probably multiple outlets in every room in your house, and they are guaranteed to be linked through a common distribution system, or power bus. A technology called X-10 has been used for years for simple applications like remote control of lighting. But nasty technical problems, such as power spikes and sags or the electronic noise generated by electric motors, made power lines reliable only for very low data rates.

Last year a consortium called the HomePlug Powerline Alliance (www.homeplug.com) adopted a new industry standard based on technology from chip designer Intellon. The specification calls for speeds of up to 14 megabits per second over AC power lines running at 110 to 230 volts and at 50 or 60 Hertz. In other words, that's just about all of the residential wiring in the world. The products I tested were among the first based on the HomePlug standard.

The arrival of power-line networking brings a third practical networking choice into the home. The Home Phoneline Networking Alliance standard, which uses existing telephone wires, is relatively cheap, but it needs a phone jack for each computer, and these aren't available everywhere you have a power outlet. Wi-Fi wireless, which now costs less than \$100 per computer, is the most flexible and is my first choice for most uses. But despite its drawbacks, HomePlug power-line networking now looks like it could be a worthy alternative, especially once the prices come down.



BusinessWeek online
IS FAIR? The
 ainment industry is
 ng away at con-
 s' fair use rights.
 Technology & You at
 businessweek.com/
 ology/

BY GARY S. BECKER

WANT TO CUT GASOLINE USE? RAISE TAXES



SLIPPERY:
While fuel-economy standards reduce consumption only in an indirect way, higher prices at the pump encourage consumers to drive less

Congress has been criticized severely for failing to mandate increased fuel economy on cars and trucks sold in the U.S. However, if the goal is to reduce gasoline consumption for environmental and national security reasons—gasoline absorbs more than 40% of all oil used by the U.S.—it is much more effective to raise gasoline taxes.

The Corporate Average Fuel Economy (CAFE) program began after the first oil price shock in 1973, which effectively threatened the U.S. with blackmail by Middle East producers. The CAFE rules impose minimum fuel-use standards on fleets of cars and light trucks produced by each car manufacturer. By 1985, manufacturers' new passenger cars had to average at least 27.5 mpg, while their fleets of new light trucks had a much weaker standard of 20.7 mpg—and heavy-duty trucks were fully exempt. These standards have not been changed since, and actual fuel economy has remained just above these minimums.

CAFE standards clearly favor trucks, including sport-utility vehicles that are classified as light trucks, even though such vehicles get relatively low mileage. Due in part to these more favorable standards, trucks and SUVs increased during the past couple of decades from less than 20% to over 50% of all vehicles produced by American car manufacturers.

Congress has been under pressure to make fuel-economy standards more uniform between cars and light trucks, as well as tougher. Yet even with greater uniformity, CAFE reduces gasoline use only indirectly, by increasing average miles per gallon. If miles driven remained the same, gasoline consumption would drop in proportion to the increase in mpg. But since higher mpg encourages more frequent and longer trips, better fuel economy could actually raise gas usage if it induces increases in driving. The CAFE system's conflicting incentives on fuel consumption explain why the National Academy of Science estimates it lowered annual gasoline use by only about 10%. However, the Academy probably overstates this effect, since it assumes a small response of vehicle travel to better mileage.

Europe and Japan do not use fuel-economy standards to any significant degree, but instead rely principally on high taxes to reduce gas consumption. Their average tax is more than \$2 per gallon, while in the U.S., federal gas taxes are only 18¢ per gallon and average state taxes 22¢ per gallon. Higher prices at the pump resulting from higher taxes increase consumer demand for cars with better fuel economy—and

they encourage consumers to reduce the driving. In addition, higher gasoline prices do not favor one vehicle type over others, and systematically encourage greater economies in trucks as well as sedans.

Research by students at the University of Chicago Graduate School of Business shows that federal taxes on gasoline would have to increase by a bit less than 50¢ per gallon to cut gasoline consumption by the same percentage claimed to be achieved under the CAFE program. It assumes that each 20% increase in gas prices reduces long-run gasoline demand by 10%.

Although a 50¢ increase is a lot compared with the present average total tax of about 20¢, it would raise retail gas prices to only a little more than \$2 per gallon, far below prices in Europe and Japan. Increasing federal taxes to 80¢ per gallon and eliminating the CAFE program would cut gasoline use by an additional 10%, yet retail gas prices would still be much below those in other developed nations.

A higher gasoline tax has been opposed because it is alleged to be regressive and to hurt lower-income families. In fact, the average percentage of income spent on gasoline is less than 4% and varies little by income class, according to the government's Consumer Expenditure Survey of 2000. So even a big tax increase would have only a small impact on the typical poor family's standard of living.

Car manufacturers were able to meet the CAFE standards primarily by reducing the size of cars, but passengers in lighter cars are more vulnerable in auto accidents. A 1997 U.S. Department of Transportation report estimates that deaths from car accidents per mile driven have declined over time in the U.S., there would have been about 2,000 fewer automobile deaths that year without the CAFE system. Although some manufacturers of small cars dispute these figures, even half that number would be a famous price to pay for the modest reduction in gasoline use attributed to CAFE. By contrast, higher taxes encourage reduced driving, fewer SUVs, and other safe ways to economize on driving.

Truckers would vigorously oppose higher gasoline taxes, instead of the CAFE program that treats trucks favorably. That would not be enough to politically doom such a change, however. Congress and the President are determined to eliminate an inefficient, ineffective, and deadly way to reduce gas usage. Raising taxes on gasoline is a more effective—and more humane—way of saving energy than CAFE.

Gary S. Becker, the 1992 Nobel laureate, teaches at the University of Chicago and is a Fellow of the Hoover Institution.



You want your work done faster, you want it done better. Brown can do that. UPS OnLine® WorldShip® software and UPS Internet Shipping at ups.com® can store and access your customers' addresses, verify their U.S. postal codes, send e-mails to let them know their packages are coming, even print the labels right from your PC. You'll never have to track another package, you'll never have to write another label. Life is sweet. **WHAT CAN BROWN DO FOR YOU?™**

and the Mailroom Guy



ups.com

Introducing Fujitsu Consulting—a partner who shares your vision

In times like these, you can't afford to work with a consultant who's single-minded. You need a company that understands the true meaning of collaboration. At Fujitsu Consulting, we share your vision right from the start, and we never lose sight of your business goals throughout the process. This has always been our approach, one that further benefits from the expertise and resources of the entire Fujitsu group, which has long provided world-class IT products and platforms all over the globe.

Unique ROI-focused methodology

As a forward-thinking global consulting organization, we utilize a unique, proven methodology that delivers a rapid and measurable return on your IT investment. It starts by focusing on the results the client expects to achieve. It then provides a road map through the design, implementation and operation of the solution to achieve the desired results.

Industry and business-process knowledge

Fujitsu Consulting creates tailored solutions for a variety of industries—in particular, communications, financial services, and government. Whether it's core back office, front office or extended functions, we enable companies to better serve their customers and collaborate with their extended supply chain of employees, vendors and partners.

Fujitsu Consulting—the new alternative

In creating powerful IT solutions, we live and breathe three simple ideas: deep collaboration with our clients, an eye-to-eye approach, and a passion for getting the job done. It is the unique combination of global scope and human scale that sets us distinctly apart from our competitors. And, perhaps, earns us a spot on your short list of consulting partners.



THE POSSIBILITIES ARE INFINITE

us.fujitsu.com



Together, the possibilities are infinite.

See Fujitsu at **SUPERCOMM** JUNE 2-6, 2002 BOOTH #23946

EDITED BY MICHAEL J. MANDEL

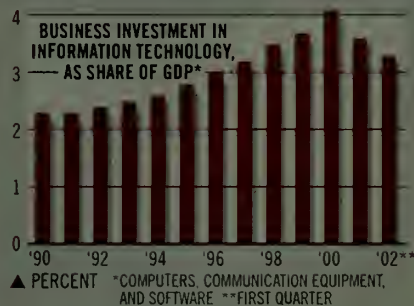
TECH'S WEAKNESS IS ONLY RELATIVE

Its share was much lower in '91

With business spending on technology down almost 20% from its 2000 high, the tech sector is clearly hurting. That raises the question: How much of the infotech boom represented sustainable levels of spending?

Quite a bit, it turns out. Business investment as a share of gross domes-

INFO TECH: THE LONG VIEW



Data: Bureau of Economic Analysis

tic product typically hits its low at the beginning of a recovery—right where we are now. The latest official data show that business investment in IT now stands at 3.3% of GDP. That figure—including spending on computers, communications equipment, and software—is down from a high of 4.3% at the end of 2000. However, it is a full percentage point above the 2.3% of GDP recorded right after the recession of 1990-91.

In effect, tech spending has held on to about half its gains of the 1990s, or a percentage point of GDP—nothing to sneeze at. With GDP running at more than \$10 trillion, that extra point of output is worth about \$100 billion.

Moreover, if there was an investment bubble in the 1990s, it may have been more on the nontech side. Business spending on non-IT equipment, such as trucks, industrial machinery, and construction equipment, rose from 4.8% of GDP in 1991 to a peak of 6% in 1999. Since then, nontech investment has given back virtually all of its increase, falling to 5% of GDP in the first quarter of 2002. There is little evidence of a sustainable rise in nontech investment.

Here's another way to assess tech spending. Despite the meltdown, IT spending in 2001 was still high enough

to make up for the depreciation of existing hardware and software, *BusinessWeek* estimates. As a result, the amount of IT equipment per worker, measured using historical costs, continued to rise in 2001. That helps explain why productivity growth has stayed strong.

Of course, not all of tech has held up equally well. Spending on communications equipment, as a share of GDP, is no higher than it was in 1991, showing the effects of the telecom crash. By contrast, business spending on software has doubled as a share of GDP, from 0.9% in 1991 to 1.8% today, barely off its 2000 high. Indeed, American businesses now spend more on software than they do on aircraft, trucks, and other vehicles—something that is not likely to change anytime soon.

SUPERSTARS SING THE ONLINE BLUES

The Net seems to stifle their sales

Historically, a handful of music superstars generate a disproportionate amount of sales. But the Internet may be helping to level the playing field among artists by giving buyers easy and cheap access to music before they buy it, according to a study by Ram D. Gopal and Sudip Bhattacharjee at the University of Connecticut and G. Lawrence Sanders of the State University of New York at Buffalo.

The authors counted the number of different artists who made it onto *Billboard's* Top 200 list, which comes out weekly. They found that number jumped from 498 in 1991 to 655 in 2000, showing that sales were being spread around among many more performers.

It's possible that this could reflect changing musical tastes or simply that some superstars didn't release albums toward the end of the decade. But based on their data, the authors argue that a key cause was the jump in the number of Internet users, from 3 million to 120 million in the U.S. By allowing buyers to hear a broader selection of artists before they shop, the Net reduces the benefit of a superstar reputation when it comes to record sales.

Thus, the turmoil in the music industry caused by the advent of music sharing over the Net may in part be the result of a switch from a superstar model to one that opens up avenues for new artists. "The online music-sharing networks are star nurseries," says Gopal. "Instead of creating and marketing stars

themselves, the recording industry should outsource these activities to online networks." Record companies are still reluctant to embrace that idea.

By Margaret

SERVICE SECTOR SURPRISES

Gains arise in unexpected areas

Each quarter, the Bureau of Economic Analysis reports on overall productivity trends. But it's less well known that the BLS issues data annually on productivity growth in individual industries.

The latest such report, released in March, goes through 2000. It shows which industries were the productivity leaders and the laggards over the decade (table). And it offers some insights into productivity gains in industries such as retailing, transportation. For one, the spry productivity growth is quite wide in services. Among those at the top of the heap are nonstore retailers, including online and catalog sales. Their productivity grew at a 9% annual rate in the 1990s. By contrast, productivity in several service sector industries, including grocery stores and cable

The data also show that higher output per hour does not assure good profits. Productivity soared in the telecommunications industry at a 5.9% rate. But these gains came in part from overinvesting in equipment, which lowered profits. It wasn't necessary to be high-tech to boost output per hour. Productivity in department stores rose sharply, and apparel stores got big gains by cutting worker hours.

Perhaps the big surprise was the strong performance of the much-maligned railroad industry, which generated 5.1% annual productivity gains, the result of mergers that cut employment and boosted efficiency. By comparison, air transportation checked in with productivity growth of under 2% per year.

WHERE DID PRODUCTIVITY GROWTH RATE OF OUTPUT PER HOUR, 1990-2000, SELECTED SERVICE SECTOR INDUSTRIES

NONSTORE RETAILERS
TELEPHONE COMMUNICATIONS
DEPARTMENT STORES
ELECTRIC UTILITIES
COMMERCIAL BANKS
HOTELS AND MOTELS
EATING AND DRINKING PLACES
FOOD STORES
MOTION PICTURE THEATERS
CABLE AND OTHER PAY-TV SERVICES

Data: BLS

JAMES C. COOPER & KATHLEEN MADIGAN

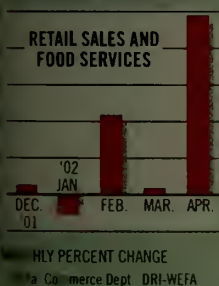
THE ONLY DOUBLE-DIP WILL BE ON YOUR ICE CREAM CONE

Thanks to resilient consumers, the recovery isn't likely to peter out

U.S. ECONOMY

After the economy burst out of the gate in the first quarter, slowing at an annual rate of 5.8%, some dismal scientists warned that the recovery was destined to peter out in the second quarter. Consumers were bound to e, they said. Well, it's not happening. Households remain the leading force in this recovery, and fears of a double-dip in the economy are now all but dead. That's evident from the latest news on consumer spending. Motor vehicles in April sold at a pace higher than their first-quarter average. Rising applications for mortgages show housing demand is still strong. And most surprisingly, retail sales jumped 1.2% in April, the biggest gain in six months (chart). The increase in store sales suggests that real consumer purchases are on track to grow at an annual rate of 3% to 4% in the second quarter, enough to ensure another quarter of healthy economic growth.

SHOPPERS FLEX THEIR MUSCLES



In fact, the economy began this quarter with considerable momentum carried over from its first-quarter gallop. Industrial production rose in April, but producers are running to catch up with demand. Despite rising output, business inventories in March continued to fall, indicating more production gains in coming months. Real gross domestic product

didn't repeat last quarter's 5.8% surge, but it's not headed toward zero, either. Meanwhile, inflation is benign. Consumer prices in April rose 0.5% from March, but setting aside one-time bumps in energy and tobacco products, the rise was only 0.2%. Low inflation gives the Federal Reserve plenty of leeway to keep interest rates on hold. In particular, the Fed wants to see businesses start to invest in new equipment again, the crucial last part of a advanced recovery. Policymakers are also watching how this year's bust in capital spending is affecting productivity, but Fed Chairman Alan Greenspan is now hinting that the lull may actually help productivity.

THE CONTINUED RISE

in consumer spending improves the outlook in ways that go beyond just shoppers' direct contribution to GDP growth. First, the spending gains allowed businesses to sell off much of

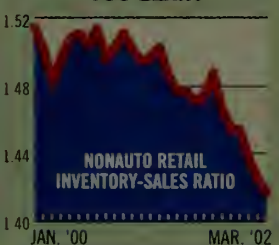
their excess stockpiles of goods, and future inventory repositioning will add to GDP growth. Second, companies are looking for a consistent upward trend in final demand before they increase their capital spending plans. Consumers account for the bulk of U.S. final demand.

That's why the surge in April retail sales was extremely good news, especially in the stock market, where investors may finally believe that this recovery has the staying power to generate future profits. The April store gains were widespread. Sales at car dealerships rose 1.9%, and higher gasoline prices boosted gas-station receipts. But even excluding those two categories, sales were still up a robust 0.9%.

Households have a lot on their minds, and those worries were supposed to hold back spending. Predictors of a double-dip pointed to higher gas prices, more unemployment, and rising debt levels as factors that would keep consumers from opening their wallets.

They have kept spending, however, because their real after-tax income is growing, on average, at a healthy 3% to 4% pace, reflecting several factors: Job growth is turning up, pay raises are outpacing inflation, and tax rates for some households have been cut. Also, except for extreme cases like Silicon Valley, home values have held up. That wealth gain has offset stock market losses while also allowing homeowners to tap their home equity for spending.

ARE STORE INVENTORIES TOO LEAN?



THE STEADY CLIMB

in consumer demand has left some businesses with insufficient stockpiles to meet shoppers' appetites. Inventories held by manufacturers, wholesalers, and retailers in March fell 0.3% from February, while sales rose 0.3%. As a result, the ratio of inventories to sales, which dipped lower in March, is now below its long-term trend. This suggests that many businesses need to start adding to their inventories in order to meet demand. That is particularly true in wholesaling, where stockpiles are at the lowest level in relation to sales since 1997, and in nonauto retailing, where the ratio is at a record low (chart).

The need to rebuild some inventories is leading to a recovery in the factory sector. Industrial output in the nation's factories, utilities, and mines increased 0.4% in

Business Outlook

April, with manufacturing alone scoring a 0.3% advance. Those gains put industrial production on a pace to rise faster this quarter than its 2.6% annual rate of increase of last quarter. The Fed reported that in March, output gains were the broadest in five years.

AN APRIL PICKUP in production of high-tech goods suggests that companies are starting to invest in new equipment. The fundamentals under capital spending are improving: With help from consumers, expectations of future demand are brighter, enormous productivity gains are setting the stage for better cash flow, and bankers are not as stingy as they have been.

The Fed's latest survey of senior loan officers shows that the percentage of domestic banks tightening their lending standards for large and midsize companies fell sharply in April, to 25%, from 45% in the January survey. The percentage for small companies seeking loans dropped from 42% to 15%. Those are the lowest percentages in two years (chart). Plus, the spread between loan rates and banks' cost of funds fell to its narrowest point since late 1999, implying that banks are going after new lending more aggressively.

Still, the survey suggested that the capital-spending turnaround is coming very slowly. Banks said that demand for commercial and industrial loans remained weak. Every bank experiencing weaker demand for C&I loans noted that softer demand for funds to fi-

nance capital expenditures was at least a "some important" reason for fewer loan requests, while more than a third said it was a "very important" reason.

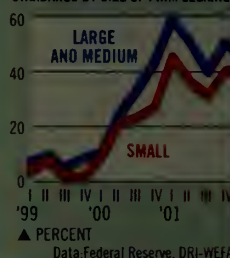
Interestingly enough, Fed Chairman Green does not seem overly alarmed at the capital-spending drought. In a speech on May 10, he even suggested that the slump of the past year and a half could be boosting productivity growth.

As counterintuitive as that may sound, keep in mind that a key part of technological change is digesting new technology. Studies show that efficiency can be lost when fresh technologies are implemented, because workers must spend time learning new procedures and equipment. Greenspan says that an investment lull can diminish those inefficiencies and allow the benefits of past investments to come through. That could partly explain the recent extraordinary advance in productivity.

That gain is also lifting workers' real buying power. Add in the outlook for improving cash flow and better financing conditions, and a turnaround in capital spending is inevitable—with much of the credit going to surprising resilience of consumers.

BANKS ARE BECOMING LESS STINGY

PERCENT OF BANKS TIGHTENING LENDING STANDARDS BY SIZE OF FIRM SEEKING



▲ PERCENT
Data: Federal Reserve, DRI-WEFA

EURO ZONE

NEW INFLATION WORRIES AT THE ECB

The European Central Bank turned decidedly hawkish at its May 2 meeting. The ECB must contain inflation while positioning the euro zone for an economic recovery later this year. Given the new stance, an interest-rate hike could come as early as July, before any anticipated action by the U.S. Federal Reserve.

The central bank kept rates unchanged at 3.25% but raised its inflation outlook. ECB President Wim Duisenberg said price pressures will recede, but maybe not enough to push inflation below the ECB's 2% target. Initial April data show prices rising 2.2% from a year ago, led by higher oil prices, but new data from France, Spain,

and the Netherlands suggest an even higher final reading.

The rounding up of prices during the euro changeover had a bigger impact than anticipated.

March core inflation—excluding energy, food, tobacco, and alcohol—was 2.5%, up from 1.6% last March. Service inflation, at 3.2%, is high and rising.

The ECB's new inflation worries come just as the economy is set to pick up—with policy already very stimulative. The bank ex-

pects real gross domestic product to grow 2% to 2.5% by the fourth quarter and at a faster pace in 2003. The ECB is especially concerned about current union negotiations in Germany and Italy.

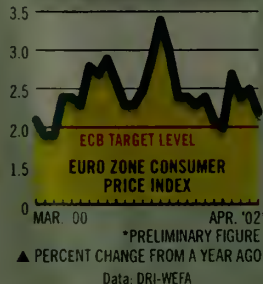
Wage growth already exceeds inflation, and Duisenberg said that sharp rise in labor costs would have a long-term effect on prices.

Several factors could stay the ECB's hand: Domestic demand is weak, with March unemployment stuck at 8.5% for the fifth month in a row. The European Commission pared its second-quarter GDP growth estimate to 0.4% to 0.7%. That means pricing power remains slack, and businesses may respond to higher negotiated wage increases by cutting their payrolls. Plus, growth in the key M3 money supply is slowing.

Still, the euro zone's recovery set to begin amid stubborn inflation and high unemployment. But since inflation is the ECB's only concern, it may not wait long to begin raising rates.

With James Mehring in New York

INFLATION REMAINS STUBBORNLY HIGH





Thank you.

Fortune Magazine just ranked us among
America's 50 Most Admired Companies;
and America's #1 company for
"Diversified Outsourcing Services."

We thank the 200,000 ARAMARK men
and women who serve our customers
around the world.

And our customers for putting us on the
one Most Admired list that matters
most...theirs.



ARAMARK

Managed Services, Managed Better.

EARNINGS: A CLEANER LOOK

Standard & Poor's gets backs to basics with a new measure of profits

Shareholders have had it up to here. In the last two years, the U.S. stock market has fallen 27%, as calamity followed calamity in a stream of bad news that only seemed to get worse. First the tech collapse, then the crash in corporate profits and the avalanche of earnings restatements, all topped off by the Enron scandal, a wave of accounting questions at even the bluest-chip companies, and the collapse of a panoply of once high-flying telecoms. If 2002 proves to be a down year, a distinct possibility, it will be the worst three years since 1941.

It hasn't been fun. But what's most worrisome about this bear market is the creeping suspicion that the earnings that investors have long relied on to make informed decisions are widely inflated. Indeed, as companies have thrown up

an ever more confusing array of self-defined "pro forma" earnings, everyone from government overseers like Securities & Exchange Commission Chairman Harvey L. Pitt to market giants like Vanguard Group founder John C. Bogel have publicly fretted about the way earnings figures are prepared, presented, and analyzed.

Amid this backdrop of fallen corporate icons and deeply betrayed investors, a debate is raging: Is it possible to define more clearly what earnings really are? If so, what is the best, fairest, and most lucid way to do so?

Fueling that debate are the sharply different numbers being counted as corporate earnings. Last year, according to generally accepted accounting principles, the companies in the Standard & Poor's 500 earned net income of \$28 a share. But Wall Street came up with another figure. At the end of each year, analysts divine their own pro forma figures on operating earnings for the companies they cover. Then Thomson Financial/First Call, which tracks earnings, takes the consensus of those analysts' views to calculate its operating earnings for the year. For 2001, First Call's figure totaled \$45 a share.

The problem, of course, is that there is

no consistency in how the companies and the analysts, actually tabulate operating earnings. On May 14, in a bid to come up with some rules to unify earnings, Standard & Poor's introduced its new "core earnings." S&P's new measure is aimed at providing a standard, comparable number that most closely reflects the ongoing earnings that a company produces from its operations.

A Better Way To Gauge Earnings?

S&P's new core earnings measure is a radical departure from the "bottom line" measures of income that investors now use. Here are the key issues, and the arguments for and against

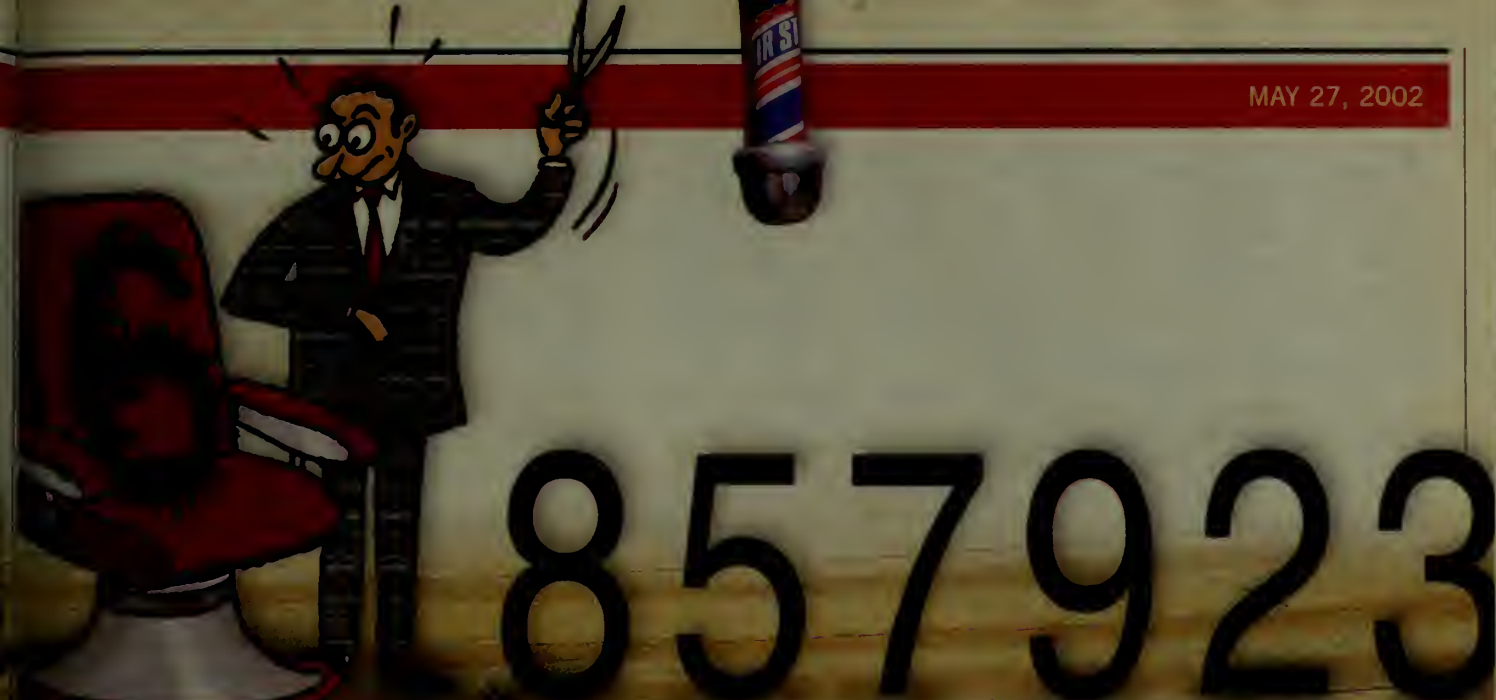
Data: Standard & Poor's
BusinessWeek

CREATING
EARNINGS

TREATING
STOCK
AS AN INVESTMENT

DEDUCTING
PENSION
FROM EARNINGS

INCLUDING
RESTRICTED
STOCK



It will surely be a sharp contrast to the pro forma figures and the earnings number calculated according to GAAP. It's largely because S&P will include the core earnings many costs that companies and Wall Street analysts would rather exclude, including expenses on stock option grants and the restructuring of ongoing businesses, as well as the writing down of the value of certain assets, pension costs, and research and development purchased from another party. At the same time, S&P will exclude income that it doesn't consider as coming from a company's operating business, such as gains on its pension plan, asset sales, or hedging operations, or other things as income from litigation or insurance.

Will this third way prove to be better?

When all is said and done, earnings will come in sharply lower, and the market will likely look more expensive. Still, that's a small price to pay for a more complete and consistent earnings measure, many insist. As the marketer of indexes like the S&P 500, the company, which, like *BusinessWeek*, is a unit of The McGraw-Hill Companies, is particularly interested in trying to restore what it sees as a growing concern among investors that the earnings being presented are unreliable. "Confidence in earnings underpins the value accorded to our markets," says Leo O'Neill, president of S&P. "I hope this will enhance confidence in the equity markets."

Eating away at that confidence is the rising prominence of pro forma earnings numbers calculated by companies and analysts at will, using no rules and with plenty of discretion. When CNBC broadcasters blare out that a company beat or

didn't beat its earnings estimate, they're not talking about GAAP net income. They're talking about the First Call estimate of earnings from ongoing operations. And in recent years companies have increasingly moved beyond Wall Street's adaptations of GAAP to issue their own pro forma earnings. Research from the University of Utah and Brigham Young University found that the number of companies doing so jumped from 181 in 1998 to 695 in 2000.

The shift to pro forma started out as an attempt to get to a number closer to "true" operating earnings. But it has led instead to market pandemonium as companies attempt to redefine their own bottom line in ways that lead to the most favorable presentation and interpretation of their performance. Comparing one company to another has become next to impossible. And a growing number of people are questioning the legitimacy of

CON

Confusion of operating and pro forma calculations is confusing and undermines investors' ability to understand the ongoing earnings of a company's operations. By developing a standard set of earnings that come from operations, S&P is striving to restore consistency and restore investors' faith in the numbers.

The measure would treat stock options the same as other compensation, such as salary and bonuses. That recognizes a real way to help trim excessive options grants.

Plans reflect the abilities of investment advisers, not the economics of operations, so they should not be considered part of operating earnings.

The rise of "recurring nonrecurring" charges—one-time charges that recur quarter after quarter—it makes sense to include them in any measure of ongoing business.

The new S&P number will add one more entrant to the hodgepodge of earnings numbers now in use. Moreover, since different industries face different operating and financial conditions, a "one-size-fits-all" number isn't much use anyway. Better for investors to make their own calculations tailored to specific companies.

Many companies, especially in the tech sector, will be penalized. Expensing options might lessen their use, limiting a tool intended to spur innovation and align management's interest with shareholders.

Companies must account for the costs of running pension plans, so it is only fair to count income from pension plans as well. Another problem: Pension data would be available only annually, not quarterly.

Not all restructuring write-offs are the same, and this cookie-cutter approach would cause charges that truly are one-time events to impact operating earnings.

the figures being produced. In his 2002 letter to Berkshire Hathaway shareholders, investing sage Warren Buffett warned that companies issuing such numbers "want you to unthinkingly accept concepts that are dangerously flawed."

That's why plenty of Wall Street types and corporate leaders appear willing to give S&P's approach a shot. "A group with some authority and stature and a reputation for probity is stepping into the breach," says Lehman Brothers Inc. accounting expert Robert Willens. "I think it's a necessary thing that they're doing." S&P has support even among companies that will probably see their earnings drop under the new measure. "It's a step in the right direction," says John Connors, chief financial officer of Microsoft Corp., a major issuer of stock options, the cost of which will now be deducted. "Obviously, credibility needs to be restored."

Clearly, investors are clamoring for a better way. Traditional net income calculated according to GAAP is no longer the

gold standard. The problem, critics say, is that it doesn't adequately reflect performance largely because it includes many costs which are not related to the company's future growth prospects. The result: "a GAAP number that is techni-

The debate: What's the clearest and fairest way to report profits?

cally correct but entirely inaccurate," says Vanguard's Bogel.

Yet it is far from certain whether the new S&P measure will prove the answer to the earnings mish-mash. To have real impact, the new measure will have to be widely adopted among Wall Street firms and investors. Yet the proposal is hardly being embraced by all. Morgan Stanley Dean Witter accounting guru

Trevor Harris immediately fired a report calling the measure "nobly flawed" by inconsistencies and the inclusion of items like pension gains. Jenkins, chairman of the Financial Accounting Standards Board, which sets accounting standards in the U.S., said that he didn't expect S&P's move to have any impact on that body's work. First Call won't be incorporating the new definitions into its service, either.

Many opposed to the new definition simply disagree with the philosophy behind it. They argue that it is a mistake to apply a "one-size-fits-all" rule to calculating earnings. "Standards are good, but unidimensional investing isn't the way," warns Amazon.com CEO Jeffrey Bezos, himself a champion of pro-forma numbers. He believes if people stick to the GAAP statement more closely, they will find all they need.

But critics also argue with the specifics of S&P's definition. One big concern is the decision to uniformly include such things as restructuring charges in ongoing operations when they are s-

COMMENTARY

By Peter Coy

WHY BETTER NUMBERS REALLY MATTER

In finance textbooks, markets are perfect and stock prices reflect all available financial information. If that were the case, the plan by Standard & Poor's to define "core earnings" in a standard way would be unnecessary. Analysts and investors would already see through companies' "pro forma" earnings concoctions.

In the real world, though, they often don't. That's why the changes proposed by S&P (like *BusinessWeek*, a unit of The McGraw-Hill Companies) are a big deal. If widely adopted, they would provide a common frame of reference that would make it far more difficult for companies to hoodwink investors by playing games with their earnings. And ultimately, that would help ensure that individual stocks—and the market overall—are more accurately valued. Says University of Pennsylvania economist Jeremy Siegel, author of *Stocks for the Long Run*: "I think this has enormous import. This is exactly what investors are looking for."

Why is that? For starters, S&P core earnings are almost certain to be lower

than the operating earnings now widely cited, though S&P executives don't know yet by how much. That means genuine earnings from core operations are likely lower than investors have been led to believe. And lower earnings per share implies higher price-earnings ratios, so the market may be more richly valued than expected.

How will investors react? They might be frightened and sell. Or they might be willing to pay more for stocks if they feel that p-e ratios are more trustworthy.

Of course, it's possible that the new measure won't affect the market any more than switching from Fahrenheit to Celsius affects how cold it is outside. Unless, of course, it becomes clear that accounting tricks have caused operating earnings to grow at an artificial-



s pertinent and
etimes not. The
e stems from a
ving dissatisfaction
companies that re-
"one time" restruc-
g charges over and
Case in point:
hpaste and diapers
t Procter & Gamble
which has reported
structuring charge
of the past 12 quar-
But what about a
pany that only takes
structuring charge
in five years? Many
e that should not be
ded in core earnings.
What can't be denied
e dampening effect
new calculation will
e on the numbers.
rding to S&P, Gen-

Electric Co.'s core earnings per
e last year would have been \$1.11, or
imes today's stock price. That's far
ow the \$1.42 reported by GE and
h more expensive than its implied
e-earnings ratio of 22.

A HAIRCUT FOR GE

*How S&P's core earnings
measure would trim GE's op-
erating earnings per share*

GE'S 2001 EPS	\$1.42
CHANGES FROM	
ASSET SALES.....	-.06
	1.36
STOCK OPTIONS	
EXPENSE.....	-.04
	1.32
LESS	
PENSION GAINS.....	-.19
	1.13
OTHER	
ADJUSTMENTS.....	-.02
GE'S CORE EARNINGS	\$1.11

Data: Standard & Poor's

Free-market advocates also note that
the troubles at Enron and Arthur An-
dersen, plus the spate of accounting prob-
lems elsewhere, have already put Cor-
porate America on the straight and
narrow. A helpful nudge came from the

For GE, the biggest
impact came from sub-
tracting income earned
on its pension invest-
ments. The industrial gi-
ant adds that to its ear-
nings—in accordance with
GAAP—but S&P argues
that pension income
shouldn't be included
since it doesn't reflect
basic performance. GE
spokesman David Frail
argues that S&P's treat-
ment is inconsistent. Al-
though it excludes pen-
sion income, S&P includes
the service costs associ-
ated with pension bene-
fits. For companies with
overfunded pensions like
GE, those costs would not
be paid from core
operations.

SEC in January, when it sanctioned
Trump Hotels & Casino Resorts Inc. for
pro forma reporting abuses. A month
earlier it also warned companies that
they must explain how pro forma num-
bers relate to GAAP earnings.

Still, S&P is hoping that its move will
influence regulators like FASB and the
SEC and help push them into creating an
official and well-defined operating ear-
nings measure. But so far the SEC ap-
pears cool. "A one-size-fits-all approach
for purposes of public disclosure doesn't
seem to work," says Robert K. Herd-
man, chief accountant of the SEC. That
means that for now, it's up to Wall Street
and investors to embrace the new S&P
definition—or not.

At the very least, S&P's move will
stoke important debate about the true
nature of earnings and how best to
measure them. What S&P's O'Neill does
not want to see is a return to "that era
of exuberance where investors did not
look closely at the numbers." That, at
least, should be one thing everyone can
agree on.

*By Nanette Byrnes and Mara Der-
hovanessian in New York with bureau
reports*

ate. "It might help deflate the
ays Yale University economist
Shiller, author of *Irrational*
But S&P execs say they
have no evidence yet
that operating earnings
have risen faster than
core earnings.

So in the short run,
will S&P's new standards
have any impact? Yes,
primarily on individual
stocks. Short-term
volatility could increase
if core earnings fluctu-
ate more than pro forma
results. On the plus
side, big crashes might
occur less often, because
bad news will dribble
out instead of being ex-
posed abruptly. S&P's
new standards could
even help the U.S.
economy if they steer
investors toward compa-
nies that can generate
real value and away
from those with artifi-
cially inflated results.

But perhaps the biggest reason core
earnings matter is their potential impact
on stock analysts. Analysts are supposed
to be the ones who steer investors
straight, but too often they parrot what-
ever earnings number a company high-
lights. The problem isn't necessarily con-
flicts of interest, although those are
common enough, especially for sell-side
analysts working for investment banks.

Many analysts simply lack the time to
study companies in depth. Eric Hirst, an
accounting professor at the University of
Texas at Austin, notes that a typical
buy-side analyst for a pension fund fol-
lows about 40 companies in a portfolio
and keeps tabs on roughly 40 others.
Analysts work about 50 hours a week
and spend only about half their time on
stock research. Says Hirst: "Analysts are
very busy people and they tend to use
data as it's presented to them."

In an experiment, Hirst and two other
researchers tested 80 buy-side analysts,
who presumably don't have the conflicts
that sell-side analysts do because they're
paid to recommend stocks for the portfo-
lios of the investment firms that hire
them. Hirst asked the analysts to study
the statements of a pair of imaginary

banks. There was a red-flag distinction
between the banks, but the analysts
didn't spot it unless it was highlighted in
a format that's far more explicit than the
one companies now use. Hirst also asked
about 100 analysts to study a fictitious
company. Most overlooked an obvious
profit game.

Companies that resist standard ear-
nings measures like S&P's new benchmark
invariably argue that their own pro for-
ma versions are superior because they
exclude items that have no bearing on
long-term earnings potential. But in a re-
cent study, Russell J. Lundholm of the
University of Michigan found that the
more companies excluded from pro for-
ma earnings, the lower their future cash
flows were, holding other factors con-
stant. The stocks of those with the most
exclusions underperformed ones with the
fewest exclusions by 17% over three
years.

Economist Siegel calls S&P's core ear-
nings plan "very, very positive." It's no
panacea for shady accounting, but if it
takes hold, pro forma statements will be-
gin to look strictly amateur.

Coy is economics editor.

This has enormous import. This is exactly what investors
are looking for



—JEREMY SIEGEL, Economist, University of Pennsylvania

ENERGY

POWER GETS ZAPPED FROM ALL SIDES

As revelations pile up, the energy industry is taking hits from regulators, investors, and customers

For once smooth-sailing power generators and traders, each day seems to bring a horrific *Jaws*-like sequel. Just when investors think it's O.K. to wade back in, another shark surfaces in waters that haven't been safe since Enron Corp.'s implosion last fall. "I've been in this industry for 30 years, and it breaks my heart to see it in such a mess," says Sally Hunt, special consultant at National Economic Research Associates Inc.

In the past six weeks, revelations of questionable accounting and trading maneuvers at Dynegy Inc., market manipulation in California by Enron, and phony trades and inflated revenue at Reliant Resources Inc. have roiled jittery markets. William F. Hall, senior vice president for energy policy and strategy at Duke Energy Corp., blames "immature players who aren't managing their businesses well" for "casting a big cloud of suspicion over all." But the fallout will go well beyond battered stock prices and reputations.

Federal and state regulators are sure to exert more oversight and demand increased disclosure. A capital-constrained industry plagued by regulatory uncertainty will find it harder to get the money to build plants and pipelines. That could pave the way for future energy shortages. Some players are considering leaving the trading business. And the road to broad deregulation of the power markets appears blocked for years. "It's a mistake for people to assume that deregulation in the power business is simply inevitable," says Lawrence J. Makovich, a senior director at Cambridge Energy Research Associates.

The extent of the fallout depends to



some degree on how widespread the market manipulations turn out to be. After internal memos showed that Enron traders may have boosted profits by overstating demand and creating phony congestion in the California power market, the Federal Energy Regulatory Commission (FERC) moved to see if others engaged in similar tactics. The agency has asked more than 130 companies to provide details on their 2000-2001 trading practices by May 22.

Sure, it's a giant fishing expedition spawned by political uproar. But the inquiry is "a real test for [the pro-market] FERC," says agency Chairman Patrick H. Wood III. He vows to release an interim report on the probe this summer.

Yet even if widespread abuses are found, the agency, which has been criti-

cized by California Democrats for dragging, has limited tools at its disposal. It has civil statutory authority so any criminal activity that turns out to be handled by the Justice Dept. FERC can levy fines, but they would be mosquito bites to power giants. For example, a willful violation is limited to \$5,000 a day fine, but a willful violation is limited to \$5,000 a day fine. The White House has asked Congress to increase the fine to \$25,000 a day and \$1 million respectively, but there's no change in law yet.

FERC is also working on rule changes to make electricity transactions more transparent. It recently proposed rules requiring traders to submit more information about who they're trading with and for how much. Industry lobbyists oppose it, saying it would force them to reveal too much detail to rivals.

The fallout goes well beyond battered stock prices

officials say this "sunshine" approach would prevent future abuses. They can order refunds, which agency leaders say is the most likely outcome. And that could play into the hands of regulation opponents and California politicians such as Governor Gray Davis, who's trying to renegotiate \$36 billion in long-term power contracts and is seeking refunds of \$9 billion from marketers of generators.

Certainly, better safeguards will be needed before deregulation's prospects improve again. In the 17 states that have begun to open competition for re-

liant pulled a \$500 million private debt placement amid news that its traders had pumped up revenues 10% in the past three years with so-called "round-trip" trades. Reliant blamed "misguided" employees for trades in which the company would buy and sell the same commodity at the same price with the same partner. While there was no impact on profits, the fake trades inflated revenues and volumes. It's unclear if such moves affected prices, but the probe is heating up.

Optimists say the problems aren't as bad as they appear to be. But others suspect the trading games were wide-

bank on the way out of town and leaving the keys to the plant."

Customers in this confidence-sensitive business are demanding more, too. William E. Hobbs, CEO of Williams Energy Marketing & Trading Co., says some of his clients want additional collateral, while others are signing one- or two-year deals instead of five-year pacts. That will mean lower profit growth in the near term.

Financial woes are also prompting the demise of ill-conceived power projects—though that could end up boosting profits. Economist Kemm C. Farney of DRI-WEFA

Inc. thinks half of more than 320,000 megawatts of proposed U.S. capacity will be canceled next year. He and others see that as the necessary end to a building boom that created overcapacity. But some worry about aftershocks in two or three years. "You could certainly see some regional shortages in certain commodities," says Hobbs. California, he notes, is "far from out of the woods."

A shakeout is also expected in the trading sector, where hundreds of players buy and sell power and related products to utilities, industrial users, and other big customers. Reliant says it's calling a "time-out." Dynegy says it could exit the business—15% of its operating and equity earnings. It says its "round-trip" trades under

question were never included in volumes or revenues, unlike Reliant's. "We still like our business model and think it makes sense, but right now, the market's not giving us any value for it," says President Stephen W. Bergstrom.

Some compare the industry's pains to those seen in banking, telecom, and airlines in the early stages of deregulation. "The growth prospects for the industry are still there," says Gary J. Morsches, a senior vice-president at Atlanta-based Mirant Corp. But first, the industry will have to slog through the long and painful process of rebuilding the confidence of investors, regulators, and consumers.

By Wendy Zellner, with Stephanie Anderson Forest, in Dallas, Laura Cohn in Washington, Dean Foust in Atlanta, and bureau reports

AFTERSHOCKS

Troubled power generators and traders face more turmoil:

FINANCING

Cautious trading partners will demand more collateral, and investors will remain skittish, even as players slash spending and unload assets. Expect a shakeout of trading operations as some scale back and others sell.

OVERSIGHT

State and federal regulators will more aggressively monitor and enforce rules amid new efforts to close loopholes that allow market manipulation.

GROWTH

The industry's earnings prospects will be hampered, plans for new power plants will be canceled or postponed, and deregulation could be stalled for years.

customers, there has been no huge backlash yet. But those that haven't moved won't move forward now. And the regulators are stepping up their vigilance, even though their market structures don't share California's fatal flaws. One reason: Even supposed success stories such as Pennsylvania and Texas have found their systems open to abuse. "I don't think any energy market is immune to manipulation of this kind," says Joe Bowring, market monitoring unit manager for PJM Interconnection LLC, the operator of the mid-Atlantic grid that includes Pennsylvania, Maryland, and New Jersey.

Indeed, the revelations about Reliant and its trading partners CMS Energy Corp. and Xcel Energy Inc. raise questions about broader abuses. On May 10, Re-

spread in the rush to impress Wall Street. "There's overall investor disgust with this sector now," says one analyst. No wonder Dynegy stock is down 65% since Jan. 1, Reliant is off 47%, and Mirant has lost 46%.

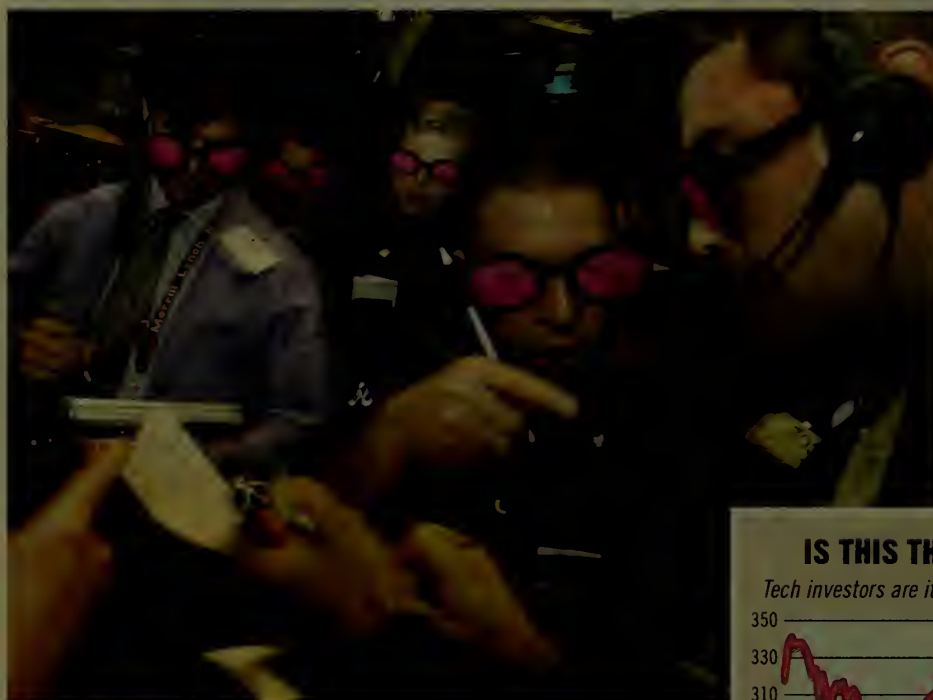
Many power players are trying desperately to appease skittish rating agencies and lure capital. Williams is in talks with what it calls "strong financial houses," such as Berkshire Hathaway Inc., for new investment. Gerald Keenan, an energy expert at PwC Consulting, figures merchant energy companies must refinance \$50 billion in bank loans over the next two to three years. "The problem is that the financials on which those loans were made now seem fanciful," he says. "It wouldn't surprise me to see some of these folks simply stop by the

Damaged credibility. Financial pressures are mounting

COMMENTARY

By Jim Kerstetter

TECH CEOs AREN'T BUYING THE BUZZ ON THE STREET



On May 7, computer networking giant Cisco Systems Inc. reported earnings that would have produced yawns on Wall Street at the height of the tech boom. Profits rose 10%, to \$729 million—mostly thanks to cost cutting—on flat sales of \$4.8 billion. CEO John T. Chambers was cautious, saying he saw no real signs that the prolonged high-tech spending slump was ending. And many analysts concurred. “It’s far too early to break out the party hats,” says Steve Kamman, network analyst at CIBC World Markets.

Nonetheless, tech investors went wild. Cisco’s stock jumped 24% the next day, and the tech-heavy Nasdaq went on a 305-point joyride before losing most of its gains over the rest of the week. Tech stocks soared even higher the next week, goosed by positive retail sector spending numbers and a speck of good news from the chip-equipment sector. And valuations for most tech companies remain high.

Yet for all the optimism, most tech execs say they see no turnaround in sight until early next year at best. Hewlett-Packard CEO Carleton “Carly” S. Fiorina believes a muted recovery in the second half is still possible.

“But we are not counting on a meaningful improvement in spending until 2003,” she says.

So why the disconnect on the Street? Credit part of the rally to short-sellers covering their losses off good news. But beyond that, many investors are simply feeling impatient. “There’s a contingent that’s bound and determined to earn back what it lost in this sector,” says Thomas McManus, chief investment strategist at Banc of America Securities in New York.

The optimists also seem to believe that tech will rebound quickly on the back of an economic recovery. That view got a boost on May 14 when retail sales figures for April climbed 1.2%, blowing past expectations for a 0.7% jump. The same day, tech bellwether Applied Materials Inc. in Santa Clara, Calif., said it expected third-quarter orders of its chip-manufacturing equipment to rise 10% to 15% from the second quarter, further buoying tech stocks. “This rally’s for real,” asserts James M. Weiss, chief investment officer for equities at

State Street Research in Boston.

There’s a danger, however, in reeling too much into Applied Materials whose gear gets snapped up whenever heavyweights such as Intel Corp. upgrade factories or build new ones. That’s happening now, although most chipmakers say they don’t know when end-user demand, particularly in the corporate sector, will roar back.

So does this rally have staying power? Probably not. For one thing, many tech stocks are fully valued, says Scott M. Black, president of Iphi Management Inc. in Boston. Cisco is trading at 47 times earnings. And while Oracle Corp.’s p-e ratio has fallen sharply to around 21 times earnings, Black says the stock is still not a bargain because the company’s profits could slip further. Even if the tech market is at the bottom, it could bump along there for a while. “People want to be early so they don’t miss out on a rally, but it may be two years before we see the earnings

power to support any of these valuations,” he says.

In other words, investors are buying on hunches rather than hard data. Laura Conigliaro, a managing director at Goldman, Sachs & Co., says tech spending, which has been flat for 18 months, isn’t likely to climb this year.

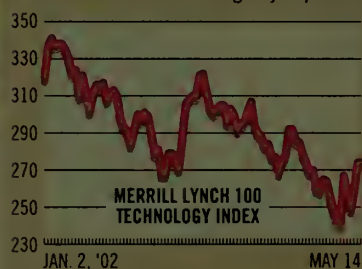
Next year could see a 7% rise, she says—hardly bull-market stuff. Say Cisco’s Chambers: “CEOs will wait to spend until they see their own profits pick up.”

Such pessimism holds sway across the high-tech landscape. Martin Pyykkonen, a network-equipment analyst at C.E. Unterberg, Towbin, notes that the seven biggest telecoms reduced their 2002 capital-expenditure forecasts by 25%. And in software, even tech-slump survivors like Siebel Systems Inc. say a recovery this year is iffy, at best. “I think tech companies are late in the food chain,” says Craig A. Conway, CEO of business-software maker PeopleSoft Inc. in Pleasanton, Calif. “We are not in the position we were before.” And it could be a while before they are again.

With Susan Scherreik in New York and Ben Elgin and Cliff Edwards in San Mateo, Calif.

IS THIS THE BOTTOM?

Tech investors are itching to jump back in



Data: Bloomberg Financial Markets

A person is seen from behind, carrying a long surfboard under their arm, walking along a sandy beach. The scene is set at sunset or sunrise, with a warm, golden light. The ocean waves are visible in the background.

**There is a remote possibility
you won't stay young forever.**

LONG TERM CARE INSURANCE Sit back. Relax. SPF 35. You know taking good care of yourself for decades. The last thing you want is for anyone to have to do it for you. Our advisors have a plan to help ensure your financial freedom so you'll always be able to take care of yourself. Even if a day comes when you can't anymore.

Have you met life today?

metlife.com

MetLife 
Financial Services

COMPUTING

APPLE LACES UP ITS WING TIPS

The new Xserve server signals a shift toward corporate sales

Time was, Apple Computer Inc. Chief Executive Steven P. Jobs thought he could unseat mighty Microsoft Corp. But for years, he fought a losing battle against the march of Windows-based hardware into corporations. Today, thanks to missteps by Apple and cutthroat competition from rivals such as Dell Computer Corp., the only apples at most businesses arrive in a brown bag.

Now, Jobs has realized that if he can't beat 'em, maybe he can at least co-exist with 'em. With the launch of a new, ultra-thin server computer on May 14, Apple wants to once again make a run at Corporate America. Apple's goal in the fiercely competitive market: to offer the lowest prices on the best technology available. That's a twist for a company that typically charges premium prices. This time around, though, Apple knows that making headway into businesses will be especially tough, since relationships with PC suppliers were established long ago. Low prices may be the only way Jobs can inch in. Customers already are signaling their doubts. "We've got a [server] system that's already working well for our Windows machines, so why would we switch?" says Jeff Brown, a spokesman for games maker Electronic Arts Inc.

Apple execs insist doubters will be swayed by its servers, which in addition to being low-priced are easier to use and more robust. Its first salvo in the battle is Xserve, a \$3,000 machine that is less than two inches thick, can handle Web computing tasks at blazing speeds, and shifts easily between Windows and Apple's Macintosh files. A similarly equipped Windows server would cost some \$5,000, says researcher IDC. Key to



AMBITIOUS ATTACK

After years of losing ground, Apple is launching its biggest campaign yet to gain share in the corporate market. Included in the effort:

Servers The first of what may be a series of products, Xserve is a thin, low-end machine that handles Windows and Mac files, e-mail, and Web pages.

Software An update to its OS X operating system in late summer will make it easier for Macs to work with Windows machines. The software lets tech staffers easily set up networks and manage hundreds of Macs and PCs from a central location.

Data Storage Devices Xserve RAID, coming in late 2002, can hold 1.68 terabytes of database information that can be transmitted quickly through Web servers.

Data: Apple Computer Inc.

Apple's strategy: Its new servers are based on ultra-reliable Unix software, which corporate buyers know and trust. "We have an incredibly powerful tiger under the hood," Jobs says.

Apple could use some tiger power. Despite a string of hit products such as the iMac desktop and iPod music player, Apple's market share has been shrinking for years. Last year, Apple's shipments fell to 2.6% of the worldwide PC market, from 2.9% in 2000. Apple's sales increased 4% in the first quarter

this year, but profits slipped by 7% to shortages of key components.

Apple's foray into corporation meant to offset the company's PC market-share slide. Sure, Apple wants to sell servers. But equally important are sales of its iMac and other desktop machines once its sales reps get their foot in the door at businesses. "The for Apple is it's a one-stop shop,"

analyst Tim Deal at research firm Technology Business Research Inc.

A second leg of Apple's move into corporations is a new version of its Mac operating system, code-named Jaguar, due out in late summer. It will contain software that makes it easier to

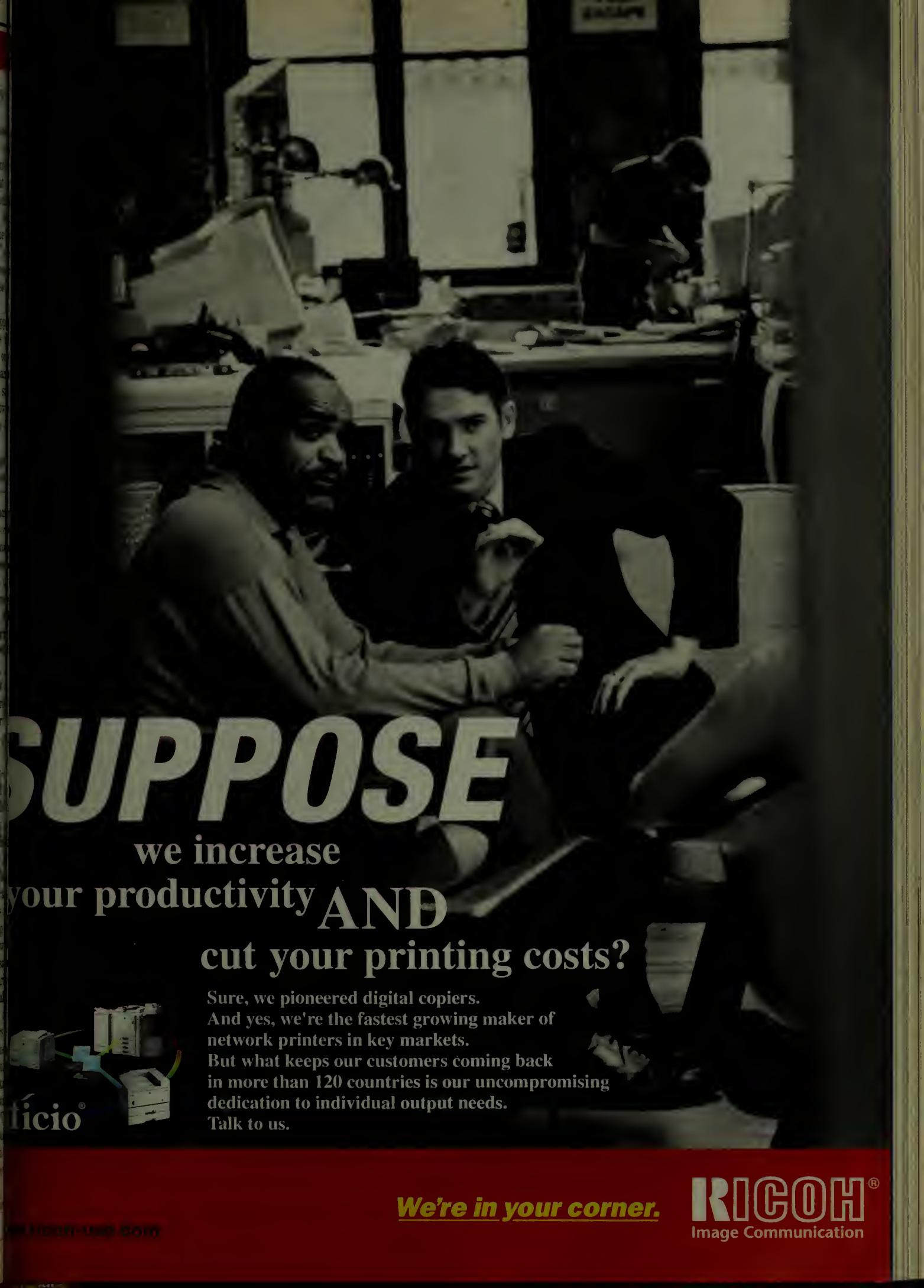
JOBS: *Unix provides "a powerful tiger under the hood"*

Macs to all networks, including Windows, as well as consumer devices of any make. And, to complement its server offering, Apple later this year plans to introduce a storage machine that can hold 1.68 terabytes of information—enough to house 10% of the Library of Congress.

The trick will be to get potential customers to overlook Apple's poor track record in the corporate sector and its new products a try. Apple's 1996 foray into high-end servers met with dismal results, amid complaints about the machine's reliability. At the time, Apple was "in a coma," Jobs admits. Tim Bajarin, president of technology researcher Creative Strategies Inc., says competitors are the ones who are asleep at the switch if they're not woken up. Since 1997, Bajarin says Jobs has churned out a string of innovations such as small

lighter machines sporting snazzy designs, which have forced competitors to play catch-up. Apple also should benefit as established enterprise computer companies, including Hewlett-Packard Co. and Oracle Corp., develop software for their servers. It's a good start. The only question is whether it's enough tiger power to get Apples arriving at offices in white boxes rather than brown bags.

By Cliff Edwards in Cupertino, Calif.



SUPPOSE

we increase
your productivity **AND**
cut your printing costs?

Sure, we pioneered digital copiers.
And yes, we're the fastest growing maker of
network printers in key markets.
But what keeps our customers coming back
in more than 120 countries is our uncompromising
dedication to individual output needs.
Talk to us.



ificio®

We're in your corner.

RICOH®
Image Communication

www.ricoh-usa.com



DRUGMAKERS

FIGHTING CANCER... AND EACH OTHER

AstraZeneca's new drug may edge out ImClone's

In May, 2001, one of the stars of the American Society of Clinical Oncology (ASCO) conference, the world's largest cancer meeting, was ImClone Systems Inc.'s Erbitux. This experimental drug was expected to be the first in a group of treatments that block tumor-growth signals. Doctors left the meeting enthusiastic, patients besieged ImClone with requests for Erbitux even though it had yet to win Food & Drug Administration approval, and investors bid up the company's stock.

That was then. ImClone's application for Erbitux was famously rejected by the FDA in December because the data were incomplete and the trial flawed. But tumor-growth signals are still front and center in fighting cancer. The star of this year's ASCO, to be held May 18-21 in Orlando, is a rival to Erbitux called Iressa, from AstraZeneca PLC. It targets the same growth factor, and it's being tested against many of the same cancers. Results on

the two drugs are even being presented back-to-back at the meeting. But while Erbitux is not expected to win FDA approval until mid-2003 at the earliest, Iressa could get the nod this summer.

The operative word here is "could." The Erbitux debacle has led to a cautionary mood among ASCO participants, so talk of Iressa is couched in qualifiers. Much of that hesitancy arose after AstraZeneca decided, in March, not to present the results of two late-stage clinical trials of the drug at ASCO because it hadn't finished compiling the data, raising concerns that there may be a problem. The company says there isn't, and Robertson Stephens analyst Jason Zhang notes that "the clinical-trial data so far for Iressa are pretty convincing." Still, he adds: "Being mindful of everything that happened with Erbitux, [it] could be a tough call" as to when the FDA will O.K. the drug.

The timing of the FDA's Iressa ruling is of urgent interest. Analysts assume that whichever drug is available first will grab a larger share of the market. Both drugs, which are relatively free of side effects, block epidermal growth

AT ASTRAZENECA
Midstage
clinical trials of
Iressa were
encouraging

factor, a protein signals cancer cells to grow and spread, though neither is considered a cure that can stop tumors from metastasizing.

In essence turning cancer into a treatable disease. Given that cancer kills 1,500 people a day in the U.S., Iressa could be a big breakthrough.

Iressa, if approved, will be used initially to treat lung cancer, while Erbitux would be deployed against colorectal cancer. Those are the two biggest among cancers, and there is no effective treatment for either once the disease starts to spread. Moreover, both are being tested against a broad range of cancers. If they work, demand could be more than \$1 billion a year.

Right now, all eyes are on Iressa. AstraZeneca's application was accepted by the FDA on the same day in December that the agency rejected Erbitux, and Iressa is guaranteed a review in six months. The filing is based on two midstage clinical trials, which included the drug on 200 lung-cancer patients who had failed chemotherapy. AstraZeneca has already reported that 18% of those patients showed a good result for advanced disease. Iressa's results will be updated at ASCO.

Still, cancer experts warn that the FDA prefers to hand out approvals on trials that show a drug extending life as opposed to just shrinking a tumor. That explains the disappointment at AstraZeneca's decision not to present late-stage trial data at ASCO. Those tests, designed to measure survival, involved 2,000 previously untreated cancer patients. Dr. Roy Herbst of the M.D. Anderson Cancer Center in Houston, lead investigator of the trials, says the results went quite well: He expects the drugs to be ready by yearend.

ImClone is also presenting data at ASCO, and analysts are hoping to pick up clues about the drug's chances with

The Race for a Cancer Treatment

COMPANY

AstraZeneca

ImClone Systems

DRUG

Iressa (pill)

Erbitux (intravenous injection)

TARGET

Growth signals inside the cancer cell

Growth-signal receptor on surface of cancer cell

DISEASE

Lung cancer. Also being tested against breast, colon, gastric, and prostate cancer

Colon cancer. Also being tested against head and neck, pancreatic, and breast cancer

STATUS

FDA application filed in Dec. 2001; decision expected in June 2002

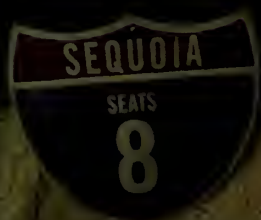
FDA application rejected in Dec. 2001; expected to refile by yearend

FDA. Of particular interest will be a large trial against cancers of the head and neck, conducted by ImClone's partner, Merck & Co. of Germany. "If the data are good, I think ASCO should help ImClone," says Dr. Robert C. Bernstein, an analyst at Catherine, Arnold & Co. But again, no one is in any position to be sure.

By Catherine Arnold
New York



**IN SOME PLACES IT
DOUBLES THE POPULATION.**



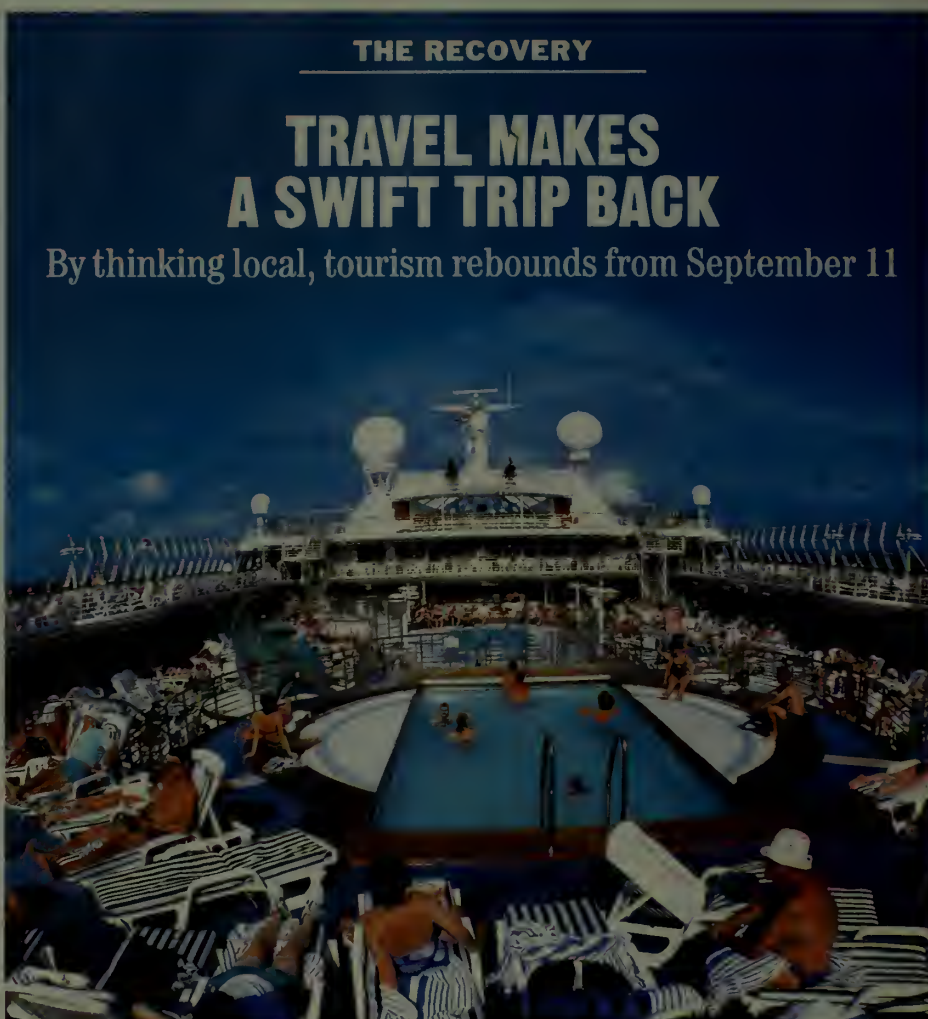
**WITH EIGHT SEATS, VEHICLE SKID CONTROL (VSC) AND TRAC TRACTION
CONTROL SYSTEMS. THE CENSUS MAY NEVER BE ACCURATE.**



A few months ago, no one would have guessed it. In the weeks after September 11, when the Mandalay Resort Group laid off 15% of its staff and halted construction of a Las Vegas convention center, chances that the company would soon be doing well seemed remote. As the recession deepened through the fall, prospects for a healthy travel sector seemed to fade even further.

But the big operator of such casinos as Luxor and Circus Circus now expects to set a record when it announces the company's first-quarter earnings on May 23. Room rates and spending at the company's casino hotels have recovered to levels not seen since last summer. "Give the credit to the American consumer," says Mandalay President Glenn Schaeffer.

Once thought of as the industry hardest hit by the combination of the terrorist attacks and recession, the \$584 billion U.S. travel industry has bounced back much faster—and in far better shape—than many experts had predicted. Discounted rates, targeted advertising, and a rebound in consumer confidence have all helped lure leisure travelers out of their houses and into casinos, cruise ships, and hotels. The increased traffic is allowing many in the industry to raise prices again. At the same time, costs have been scaled way back, sending margins soaring. The combination has turned leisure stocks into winners on Wall Street. Although its performance has cooled a bit recently, the Standard & Poor's 500 Hotel Index, which includes the cruise industry, is still up 16% since the beginning of the year. That com-



THE RECOVERY

TRAVEL MAKES A SWIFT TRIP BACK

By thinking local, tourism rebounds from September 11

pared with a 5% drop for the S&P 500-stock index as a whole.

Big cost-cutting measures put into effect following September 11 clearly get much of the credit. Months ago, hotel and resort operators across the country shut down unprofitable restaurants and consolidated redundant reservation centers. Now, Marriott International Inc. says it expects 75% of such changes to result in lasting cost savings. Wall Street analysts estimate cash flow of the three largest U.S. hotel operators—Marriott, Starwood Hotels & Resorts, and Hilton—will rise 3% this year and 12% in 2003. "It's much better than we could have hoped for," says

Hilton Hotels Corp. President and Chief Executive Stephen F. Bollenbach.

The travel industry is also getting more creative. The cruise lines, for instance, began offering more excursions from New York, Baltimore, and Galve-

ANCHORS AWEIGH:
Cruise sailings from more U.S. ports

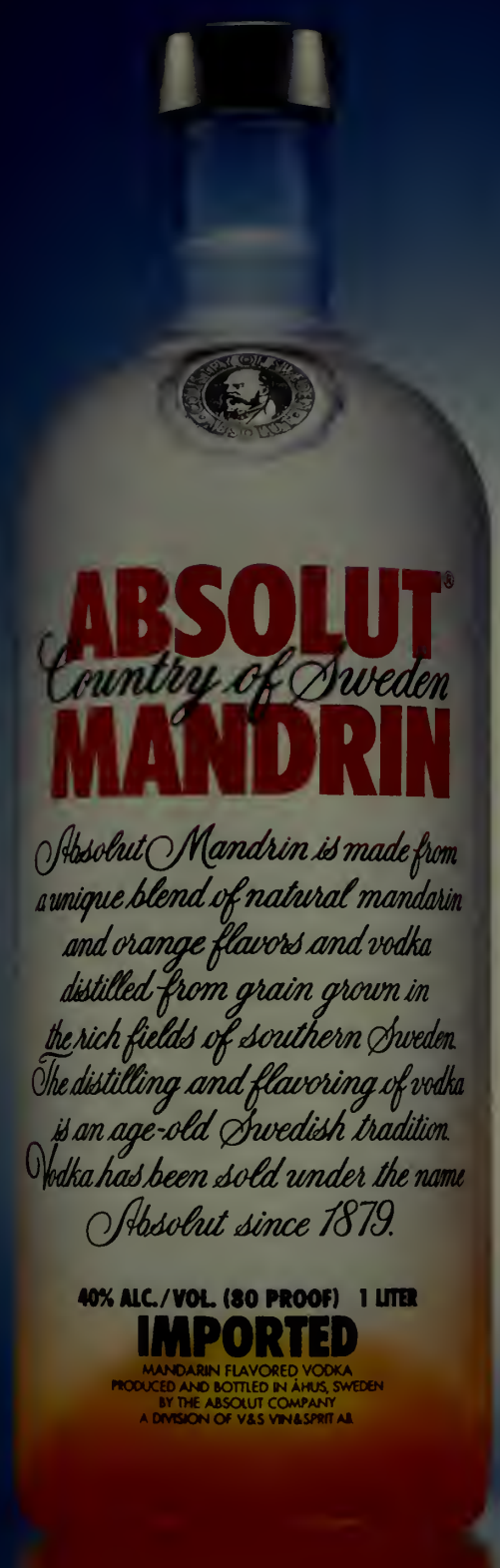
ston, Tex., thus giving travelers the ease of getting on an airplane to meet the ship. Operators of theme parks, while, have been more aggressive in price and marketing. Vivendi's Universal Studios Hollywood is offering free entry a year to visitors who buy a regular ticket. Buoyed by families driving to local resorts, the theme-park industry is expected to rise about 3% this year, to a record 1.1 million visitors, according to the National Association of Amusement Parks and Attractions.

Family road trips may be a great alternative to nearby amusement parks and casinos—that's the airline industry's toughest sell. Ticket prices and a number of passengers on the nation's airlines remain 10% to 20% below last year's levels. Airlines have tried twice to raise leisure fares by \$20, but the industry didn't stick, notes industry consultant Robert Harrell, an air travel expert. He thinks the carriers, with planes on hand, will add more this summer, sparking a new round of fare wars that will keep ticket prices depressed for some time to come.

Nor will all sectors of the leisure market necessarily continue to improve despite recent signs of strength. M. Farley, a gaming-and-leisure analyst at UBS Warburg, thinks the casino industry's stock price runup may have gotten ahead of itself. "We're seeing earnings recovery. That's not the same as earnings growth," he says. Much of the optimism on Wall Street is built on assumptions of a return of business travelers and of the local conference trade in the second half. That's hardly a given. For now, the bargain may still be those discounts at the local amusement park.

By Christopher Palmeri in Los Angeles, with Wendy Zellner in London and Michael Arndt in Chicago





ABSOLUT
Country of Sweden
MANDRIN

Absolut Mandrin is made from a unique blend of natural mandarin and orange flavors and vodka distilled from grain grown in the rich fields of southern Sweden. The distilling and flavoring of vodka is an age-old Swedish tradition. Vodka has been sold under the name Absolut since 1879.

40% ALC./VOL. (80 PROOF) 1 LITER

IMPORTED

MANDARIN FLAVORED VODKA
PRODUCED AND BOTTLED IN ÅHUS, SWEDEN
BY THE ABSOLUT COMPANY
A DIVISION OF V&S VIN & SPRIT AB



ABSOLUT REUNION.

ABSOLUT MANDRIN™ MANDARIN-FLAVORED VODKA. 40% ALC/VOL (80 PROOF). 1 LITER. BOTTLE DESIGN, ABSOLUT MANDRIN, ABSOLUT CALLIGRAPHY AND ABSOLUT.COM ARE TRADEMARKS OF V&S VIN & SPRIT AB. © 2000 V&S VIN & SPRIT AB. PHOTOGRAPH BY STEVE BRONSTEIN

EDITED BY BETH BELTON

IS NAPSTER PUTTING ITSELF TO SLEEP?

IT WAS CHAOS AT ONLINE music-sharing site Napster on May 14. The day began with CEO Konrad Hilbers resigning and ended with almost all the core team following suit, including co-founder Shawn Fanning. The exodus was to protest the Napster board's decision over the weekend to reject a buyout offer from media giant Bertelsmann.

Almost out of cash, Napster is likely to file for bankruptcy. "We could have saved this company," says Hilbers. "We had one last alternative with this [offer]." But now the site that transformed the music industry is nearly dead.

BANK ONE PROMOTES AN M&A MAVEN

AFTER JOINING BANK ONE TWO months ago as an executive vice-president, Heidi Miller was promoted to chief finan-

cial officer on May 14. Miller, 49, is a former CFO of Citigroup, where she had worked with James Dimon, Bank One's chief executive. Miller, who quit Citi in 2000 for an eight-month Internet fling as chief financial officer of price-line.com, recently served as vice-chairman of Marsh.

Miller has worked with Dimon since the early 1990s, when he hired her as an assistant at Primerica, and she will no doubt help him beef up Bank One through acquisitions. Dimon has long been expected to expand Bank One, the nation's sixth-largest bank, much as he and Miller helped build Citi.

She takes the CFO post from another longtime Dimon associate, Charles Scharf, who moves to head up retail banking at Bank One.

REMEDIAL MAKE-UP WORK FOR EDISON

EDISON SCHOOLS, THE NATION'S largest for-profit operator of public schools, with 74,000 students, reached a settlement with the SEC on May 14. The feds found that Edison had inflated reported revenues by including payments made by some of its school districts for items such as teachers' salaries. Edison vowed to change its revenue reporting and create an internal audit department.

The timing couldn't be worse for Edison, which has never earned a profit. Its stock is down 85% this year, and it's scrambling to raise up to \$50 million from an outside investor to stem a financial squeeze.

HANDCUFFED BANKERS AGAIN?

THE U.S. JUSTICE DEPT. IS investigating whether a currency-trading Web site run by 17 major banks has run afoul of antitrust laws. Jus-

HEADLINER: ALAN LACY

A CHANGE OF CLOTHES AT SEARS

SEARS ROEBUCK CEO ALAN Lacy is turning to the top line after shoring up profits through cost-cutting. On May 13, Sears said it would buy cataloger Lands' End for \$1.9 billion, cementing talks that Lacy's predecessor, Arthur Martinez, began back in 1998. Sears, which will continue to run the Lands' End catalogs and Internet site, also plans to carry the brand's merchandise in its stores to bolster Sears' eroding apparel sales.

Lacy figures that buying a well-known brand will help in its bid to develop an in-house label. And being the only retail shop to

carry the Lands' End should also help distinguish Sears from retail chains. "It allows you to compete on something other than price," Martinez says.

But there are risks as well. Lands' End aimed at high-income shoppers who may be alienated as Sears lowers prices. Store sales might also end up cannibalizing Lands' End catalog sales. Those sales are at a low where they were 10 years ago, suggesting the brand might not have much growth potential. Lacy could find more in this package than he bargained for.

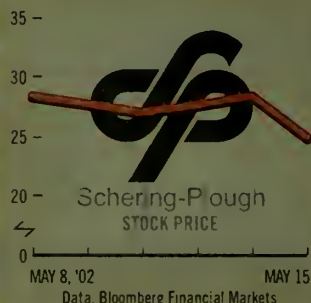
Robert Ben



CLOSING BELL

DRUG BUST?

Schering-Plough's stock slid 12% on May 15 after it said the Food & Drug Administration's Office of Criminal Investigations is conducting a probe of its products made in Puerto Rico. Schering is already in settlement talks with the FDA over manufacturing issues at its plants in New Jersey and Puerto Rico.



tice's main gripe is the exclusive arrangement between the exchange, FXall, and participating banks—including J.P. Morgan Chase and Citigroup—preventing them from doing business on competing sites.

That type of arrangement caused Justice to successfully sue Visa and MasterCard, which prohibit their member banks from issuing American Express or Discover cards. The case is on appeal.

ADELPHIA'S RIGAS HITS FLAK, BAILS OUT

ADELPHIA COMMUNICATIONS CEO John Rigas quit, six weeks after the cable company disclosed it had guaranteed \$2.3 billion in off-balance sheet loans to partnerships controlled by the Rigas' family. The nation's sixth-largest cable company installed outside board member Erland Kailbourne to succeed Rigas,

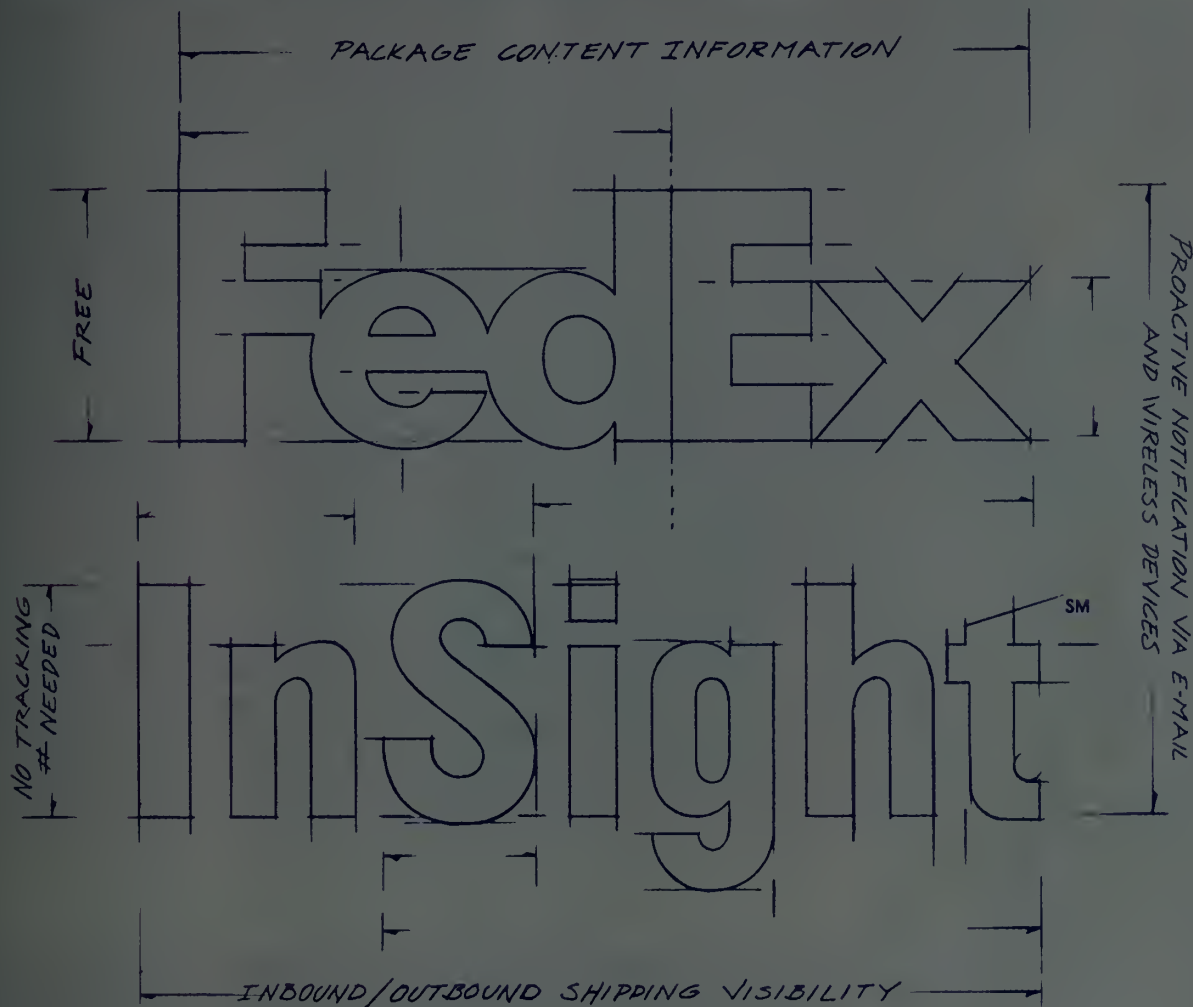
who founded Adelphia in 1952. Under investigation by the SEC for the loans, Adelphia hired former Microsoft prosecutor David Boies to conduct a probe.

That's not Adelphia's problem. Its largest outside shareholder, ex-cable operator Leonard Tow, wants the company to give up 3 outside board seats. And to reduce debt, Adelphia is seeking buyers for its cable system, which serve 5.8 million customers. Paul Allen's Charter Communications is among those interested.

ET CETERA...

- PPG Industries agree to pay asbestos plaintiffs \$1 billion over 21 years.
- Sony and Microsoft cut prices on their rival game consoles by \$100 to \$199.
- CalPERS CEO James Burroughs, 51, said he'll leave the pension fund this fall.

Introducing the most innovative
shipment information technology.



- MANAGE YOUR SHIPPING TO BENEFIT YOU AND YOUR CUSTOMERS
- USE YOUR ADDRESS OR ACCOUNT NUMBER TO TRACK SHIPMENTS
- KNOW WHERE YOUR SHIPMENTS ARE NO MATTER WHERE YOU ARE
- FEDEX INSIGHT. ONLY FROM FEDEX. TO GET IT, GO TO FEDEX.COM

Need to see what's coming,
what's going and what's inside?
Don't worry. There's a FedEx for that.SM

FedEx
fedex.com



How can you increase
customer profitability?

Identify (and keep) your
most valuable customers?

And get greater ROI from
your marketing campaigns?

SAS® is all you need to know

Only SAS provides you with a complete view
of your business. So you'll understand your
needs, enhance your bottom line, and achieve
greater competitive advantage. To find out how
leading companies are reaping the rewards of
SAS customer intelligence software, visit our
www.sas.com/csimmer

The Power to Know



EDITED BY RICHARD S. DUNHAM

HARVEY PITT: THUNDER TO THE LEFT, THUNDER TO THE RIGHT

One month into his job as Securities & Exchange Commission chairman, Harvey L. Pitt has yet to allay suspicions that he is too chummy with the big accounting brokerage firms he used to represent. A series of politicking gaffes have given ammo to consumer groups and Democrats who think Pitt has responded tepidly to the corporate wave revealed since the Enron scandal broke. Pressure on Pitt to resign is building on the Right, too, with the famously conservative *Wall Street Journal* editorial page questioning the SEC chief's credibility.

Pitt's pickle is this: Many liberals want him replaced by a less pro-business chair. And conservatives fear that he'll feel forced to prove he's no patsy of Wall Street by tinkering the markets with onerous oversight and new regulations. "One's expectations going up here that he was a person who wouldn't do any harm," says Fred L. Smith Jr., president of the Competitive Enterprise Institute. "Now, given the bloodlust of Congress, there's a tendency for him to do more harm."

The latest flashpoint is Pitt's Apr. 26 meeting

with Eugene D. O'Kelly, chairman of KPMG, a former client. O'Kelly later suggested that an investigation of KPMG's audits of Xerox had been discussed. Pitt insists the topic never came up. KPMG still maintains that it did but declined on May 14 that Xerox was never mentioned by name. The White House says the matter is settled. "Pitt got his story straight, and [KPMG's clarification] put him up," says Lawrence B. Lindsey, Bush's chief economic adviser. Some Dems aren't satisfied. "We still haven't gotten to the bottom of this, and I don't like the smell of it," Representative Edward J. Markey (D-Mass.).

Pitt insists he has done nothing wrong. "I don't view anything I've had as inappropriate," he says. Still, he promises redoubled efforts to screen visitors and squelch the

slightest appearance of improper contacts with former clients.

But can he? Even close associates concede that Pitt has a political tin ear. "He needs more appreciation for the political complications of these issues," laments a friend. That's not something his press and congressional liaisons had to worry about much in their prior jobs as staffers for the blunt-speaking Senator Phil Gramm (R-Tex.). But it's a blind spot reinforced by Pitt's style. "He's impatient, and he doesn't solicit views from people around him," says one SEC insider.



PITT: Can he keep his job?

As an operator, Pitt is the mirror image of his predecessor, Arthur Levitt Jr. On issues such as auditor independence and financial disclosure, Levitt staked out strong public positions, pushed for radical rules—and often settled for much less. Pitt sets modest reform goals and digs in—or ends up getting dragged further along. His plan for regulating auditors falls short of offering the discipline the industry requires. And when investors scoffed at new SEC rules forcing analysts to limit contacts with their investment-bank colleagues, Pitt conceded that tougher standards might be needed.

But behind the scenes, Pitt has been more the attack dog in policing actions against investment fraud. His enforcement division has racked up a long list of restraining orders, asset freezes, and fines, including a record \$10 million penalty against Xerox. "The irony is, on enforcement, [Pitt] is more hard-nosed than Arthur ever was," says an SEC staffer who worked with both chairmen.

Pitt's job seems secure—for now. And his confidence certainly is not shaken. He insists he'll be remembered as "someone who elevated the interests of the American investing public in extraordinarily difficult times. That's my goal—and I'm not used to failure." But one more round of political Pitt-falls could change that track record.

By Amy Borrus and Mike McNamee

CAPITAL WRAPUP

FRIENDLY FIRE AT FOX

A coalition of Christian conservatives is taking aim at one of the world's most prominent conservative media moguls—Rupert Murdoch. What has them steamed is what they see as lewd and immoral programming on Murdoch's Fox Network. The group coalition, which includes the Family and Concerned Women for America, has won a May 23 audience with Federal Communications Commission Chairman Michael K. Powell. Stay tuned.

NO STARS WAR

► Tinseltown's liberal-leaning glitterati, who overwhelmingly supported Al Gore in 2000, are more kindly disposed toward President Bush these days. One reason: He has avoided the convenient Hollywood-bashing of New Democrats such as Bill Clinton and Connecticut Senator Joseph I. Lieberman. "The last Administration was attacking us all the time," says Jack Valenti, president of the Motion Picture Association of America. "This Administration has not attacked us."

JOB OPENING

► Congressional Budget Office director Dan L. Crippen will not seek reappointment when his term expires at yearend. Crippen, a former Reagan aide, has come under intense criticism from House Republicans in recent months. While the CBO job is supposed to be nonpartisan, GOP leaders want his successor to be more supportive of party tax-cut initiatives. One candidate: David Malpass, chief international economist at Bear Stearns.

THE NEXT OIL FRONTIER

America carves out a sphere of influence on Russia's border

It's Happy Hour at Fisherman's Wharf, an expatriate hangout in Baku, a port on the Caspian Sea in the former Soviet republic of Azerbaijan. The place is just around the corner from the town's only McDonald's, and on a Friday in April, a gaggle of Brits, Americans, and Aussies are gathered on bar stools to munch peanuts, quaff beer, and shoot the bull. Talking about Web access in this authoritarian, Muslim country, one guy, looking as if he had just returned from a long stint on an offshore oil rig, says to his buddy: "Yeah, but can you get hustler.com?"

The rugged oil worker is a type Americans can readily identify. Most Americans, though, couldn't find Azerbaijan on the map. And they probably wouldn't be able to find—or spell—Kyrgyzstan, Uzbekistan, Kazakhstan, or Tajikistan. But American soldiers, oilmen, and diplomats are rapidly getting to know this remote corner of the world, the old underbelly of the Soviet Union. The game the Americans are playing has some of the highest stakes going. What they are attempting is nothing less than the biggest carve-out of a new U.S. sphere of influence since the U.S. became engaged in the Middle East 50 years ago. The result could be a commitment of decades that exposes America to the threat of countless wars and dangers. But this huge venture—call it an Accidental Empire—could also stabilize the fault line be-



The U.S. military in Kyrgyzstan

tween the West and the Muslim world and reap fabulous wealth for the companies determined enough to get it.

The buildup has been breathtakingly fast. Consider:

- A year ago, not a single soldier was in the region. Today, roughly 4,000 servicemen and women are building bases, as in the Afghan war, and training anti-insurgency troops along a front of peril stretching 2,000 miles from Kyrgyzstan, on China's border, to Georgia, on the Black Sea. In May, U.S. advisers started training antiguerrilla forces in the Pankisi Gorge in Georgia, where Muslim insurgents believed to be connected to al Qaeda were taking refuge from their struggle against Russian troops in Chechnya. A few days before that, Defense Secretary Donald H. Rumsfeld declared on a visit to Kyrgyzstan, where the U.S. Air Force has a base, that coalition troops would stay there "as long as necessary."

- From incidental sums fewer than five years ago, U.S. investment in the region has jumped to \$20 billion.

- The energy giants have revved up their commitment to the Caspian, one of the world's last undeveloped clusters of oil. Major investors include ChevronTexaco Corp., Exxon Mobil Corp., BP PLC, and Halliburton. BP alone plans to pour as much as \$12 billion into the region over the next eight years.

- U.S. government aid is on track to increase by 50%.



ore-September 11 levels, to \$809 million a year. Every day, Americans are digging themselves in deeper in part of the world, where 74 million people bring an exotic mix of Turkic, Mongol, Persian, and Slavic influence. What is evolving is a policy focused on guns and oil. The guns are to protect the local regimes from Islamic radicals and provide a staging area for attacks on Afghanistan. The goal is "to get off terrorism, not just get it out of Afghanistan," says Ambrose A. Jones, Assistant Secretary of State for European and Eurasian Affairs. The guns, of course, will also protect the oil—oil that Washington hopes will lessen the West's dependence on the Persian Gulf and also lift the nations of the Caucasus and Central Asia out of their grinding poverty. "You have prosperity, you have stability," Jones says. Estimates of the Caspian oil pool vary greatly—from 200 billion barrels, on the level of a Saudi Arabia, to fewer than 10 billion barrels, still on a par with the reserves of the North Sea and at current oil prices worth \$2.7 trillion. The U.S. could have a huge impact on the ability of OPEC to influence the oil market, says a U.S. government energy analyst. In 2010, the Caspian could account for 3% of global oil output, according to Moscow brokerage Renaissance Capital. ChevronTexaco was the pioneer: In 1993, it bought into the Tengiz field in Kazakhstan. In October, 2001, almost \$4 billion in investment later, a Chevron-led consortium opened its 1,600-mile pipeline from Tengiz to the Russian port of Novorossiysk on the Black Sea. BP's Caspian project is one of the biggest anywhere. ExxonMobil has stakes in the Tengiz field and in offshore deposits belonging to Kazakhstan and Azerbaijan. All three majors are hungry to get in on future oil. "I don't think ChevronTexaco's appetite for investment in this part of the world is satisfied yet," says Dennis Fahy, general manager of Chevron in Kazakhstan.

Key to the game are the pipelines, where diplomacy and oilcraft meet. The U.S. wants a pipeline that will help its friends in the region and freeze out its enemies—especially the Iranians, also located on the Caspian. That's why Washington is strongly disapproving plans by some oil majors to lay a pipeline across Iran, preferring instead for a proposed \$3 billion, 1,090-mile pipeline to carry up

Armenia

Population 3.8 million

GDP \$2 billion

Natural Resources copper, gold

U.S. Objective ① Deal with Azerbaijan over the disputed region of Nagorno-Karabakh



Azerbaijan

Population 8.1 million

GDP \$5.7 billion

Natural Resources 0.9 billion tons of oil reserves

Investment Picture ② BP will invest up to \$12 billion in offshore Caspian oil fields

U.S. Objective Thwart Iranian-sponsored militancy and strengthen Azeri Navy to secure oil investments

Kyrgyzstan

Population 4.7 million

GDP \$1.4 billion

Natural Resources gold

Investment Picture: Procter & Gamble's sales last year grew by 40%

U.S. Objective ⑥ Troops stationed at ex-Soviet Manas air base for Afghanistan campaign

AMERICA'S GAME IN RUSSIA

Tajikistan

Population 6.2 million

GDP \$1.1 billion

U.S. Objective Thwart opium smuggling from Afghanistan



Turkmenistan

Population 5.4 million

GDP \$3.3 billion

Natural Resources 2.83 trillion cubic meters of gas reserves



Uzbekistan

Population 25 million

GDP \$6.5 billion

Natural Resources 1.85 trillion cubic meters of gas reserves, plus gold and uranium

Investment Picture ⑦ Newmont Mining plans more gold mines

U.S. Objective ③ Troops at Karshi air base are set for an Afghanistan campaign



Georgia

Population 5.4 million

GDP \$3.1 billion

Investment Picture: ③ AES has invested \$250 million in power

U.S. Objective ④ Use military to flush out militants



Kazakhstan

Population 14.9 million

GDP \$20 billion

Natural Resources 1.82 trillion cubic meters of gas; 1.1 billion tons of oil

Investment Picture ⑤ Chevron-Texaco, ExxonMobil, and others have invested \$12.5 billion

U.S. Objective Oil security and access to ex-Soviet air bases



KYRGYZSTAN

Data: European Bank for Reconstruction & Development, U.S. Government, *BusinessWeek*

to 1 million barrels of oil a day from Baku through Georgia to the Mediterranean port of Ceyhan in NATO ally Turkey. BP, which is seeking to recruit other investors for the Baku-Ceyhan pipeline, is expected to make a final decision by June about going ahead. "Construction is going to be approved," says Richard Pegge, a senior manager in BP's Baku office.

Nothing is easy in this part of the world, however. Georgia has been wracked by civil war, organized crime, and terrorism. It's hardly a safe place for a pipeline. So the Pentagon is sending 150 military trainers to Georgia to help with anti-terrorism efforts and is helping Azerbaijan to bolster its Navy and modernize an air base for potential use by U.S. forces.

Not everyone is putting out the welcome mat. Russian hard-liners see the southern rim thrust as U.S. encirclement. "Your foreign policy," a group of ex-military officers recently wrote President Vladimir V. Putin, is "the policy of licking the boots of the West."

Putin is trying to calm the hot-heads. He may be calculating that his struggling country, barely able to supply its own armed forces, can benefit from the Pentagon's thrust. Putin and Bush plan to discuss U.S. military involvement in the Caucasus and Central Asia at their summit on May 24 in Moscow.

There's certainly plenty to talk about. On an April trip to the region, Defense Secretary Rumsfeld met with Kazakh President Nursultan A. Nazarbayev to discuss Pentagon access to local airfields. Some 1,000 troops of the U.S. Army's 10th Mountain Div. are already stationed at the ex-Soviet Khanabad Air Force Base in southern Uzbekistan. Fascinated by the female soldiers at the base, Uzbek guards offer to sell snapshots of women G.I.s riding motor scooters.

Russians are not the only ones nervous about U.S. troops in Central Asia. The State Dept.'s research shows that most people in Uzbekistan, Kazakhstan, and Kyrgyzstan oppose an extended U.S. military presence. "If the U.S. overstays its welcome in the region, it could alienate key allies in the war against terrorism," the department concluded in its Apr. 4 analysis. That risk also exists in oil-rich, BP-dominated Azerbaijan. "Bush sees us as the 51st state," scoffs Teymur Mamedov, a 32-year-old logistics manager for a Western oil-services company in Baku. "But it



BP is spending billions

doesn't work that way. There's nothing to hold us together—only money, and that's not enough."

Then there's China, whose leaders suspect that the Pentagon's real goal is to keep an eye on, and if need be, contain China's activities in the region. Not to be outdone by the U.S., the Chinese are helping equip the Kazakh military.

The Chinese can play the power game, but in this chess match the U.S. has more pieces. Uzbek President Islam A. Karimov is grateful that the Pentagon-led campaign in Afghanistan dealt a blow to the local Islamic guerrilla group that fought alongside the Taliban. He's opening up the country's state-owned gold mines to \$100 million in investment from Denver's Newmont Mining Corp.

For those expats who battle unyielding officials, impossible infrastructure and the sheer remoteness of it all, a stint in this part of the world can have its rewards. Even though most Baku resi-

dents lack properly filtered Western executives tied to the business are spending millions of dollars renovating 19th-century town houses with wrought-iron balconies as finely crafted as in Paris. Most of the expats are middle-aged men with their fat wallets—let's face it, it's not their bulging waists that they are magnets for beautiful young local women. "Certainly usual harassment rules don't apply here," says one American. "Fortysomething businessmen counting the perks of life in Baku."

Sensitive to the imperialist goals of the Bush Administration, the goal in the southern rim is to create a prosperous, democratic region. This is why the U.S. in March inked an agreement with Uzbekistan. America pledged to protect the country from external threats in return for its pledge to liberalize its Soviet-style economy, improve its human-rights record, and ease government-imposed press censorship. In southern Azerbaijan, the State Dept. is funding a human-rights center in the town of Lenkoran, 25 miles from Baku. Still, even among center-lefters there's skepticism about American

purposes. "If there was no oil in Azerbaijan, I am sure America would help us," says one of the staffers.

The Kremlin is sympathetic but optimistic. "It was Russia's mission so long to protect Western civilization from the Asians," says Vyacheslav Nikonov of the Polity Foundation, a Moscow political think tank. "If Americans are going to take over this God bless them."

Such sentiments aren't so

the American can do it. James C. Cornell, president of RWE Nukem in Danbury, Conn., wants to double its uranium production in Uzbekistan. "The U.S. is engaged tentatively, it creates an umbrella for so many activities—not just business but also education, culture," he says. "All that become possible." True, quagmires become possible, too.

By Paul Starobin, Catherine Belton, Moscow, Stan Crook, Washington, and bureau reports

THE SOUTHERN RIM: OIL-RICH, BUT STILL DIRT-POOR

GDP PER CAPITA

SOUTHERN-RIM REPUBLICS	\$586
CHINA	914
RUSSIA	1,790
IRAN	1,797
TURKEY	2,848
HUNGARY	4,757
U.S.	36,500

Data: BusinessWeek, European Bank for Reconstruction & Development, World Bank

COMMENTARY

By Paul Starobin and Catherine Belton

WHAT'S IN IT FOR PUTIN?

With sufficient time and care, new shoots can take root in even the stoniest of soil. So it seems for the suddenly blossoming relations between the U.S. and Russia. There was President George W. Bush in the White House on May 13, announcing his agreement with Russian President Vladimir V. Putin for the two sides to cut their strategic nuclear arsenals by two-thirds. The next day, in Reykjavik, NATO's foreign ministers unveiled a U.S.-brokered pact to give Russia a major say on alliance decisions. And at the United Nations, the U.S. and Russia won Security Council approval of tightened military sanctions on Iraq, once Moscow's close ally. The Cold War does seem to be over, at long last.

All this comes as a prelude to Bush's arrival in Russia on May 23 for a visit with Putin. While some discussions, such as those on Russia's bid to Iran's missile and civilian nuclear programs, could be tense, the meeting is expected to reflect the strengthening relationship between the two Presidents. "September 11 was a decisive moment," says a senior Bush administration official, citing Putin's play for a new partnership with the U.S. by signing up in the war against terrorism. It is even looking less likely that Putin will oppose a U.S. effort to oust Iraq's Saddam Hussein.

What Putin wants and needs now, however, is a real payoff for Russia's economy from his new political alliance with the West. Unless more is done to help Putin rebuild his impoverished and impatient country, a backlash could jeopardize what he and Bush have achieved. The Russian press is mostly sour on the arms pact, seeing it as a kowtow to Washington. And in a recent poll, more than half of all Russians called NATO "aggressive."

Putin's top priority is opening Russia's market to the West for investment and trade. His aim, as his own modest slogan says, is to help his country "Catch Portugal," the European Union's poorest nation. On that score, the U.S. has done little to help so far. Since September 11, there's been only one major deal from a U.S.-based multinational—the Exxon Mobil Corp. decision to invest \$4 billion over five years in a Far East oil project.

Of course, big projects take time to come to fruition, and some deals are in the pipeline. A U.S. business source in Moscow says that during Bush's visit, Boeing could unveil a project to build regional jets with Russian aircraft makers. Russia could also ben-

efit from a new pact between Bush and Putin under which Russian defense companies could help build a U.S. missile defense.

Portfolio investment from the U.S. may also rise. The Russian stock market is up 56% so far this year, and that's catching the attention of American fund managers. Meanwhile,

economist Peter Boone, head of research at Moscow brokerage Brunswick UBS Warburg, predicts that some 20% to 40% of Russian industry could go into foreign ownership over the next 5 to 10 years. The reason: Russian conglomerates are wringing productivity gains out of assets they bought for a song and will soon want to take profits by selling stakes to the West.

Investment projects could prove key if Russia's economy, largely based on oil, continues to slow. Right now, a mini-boom linked to

high oil prices is sputtering, with economic growth of 9% in 2000 likely to dip below 4% this year. At \$1,800, per-capita gross domestic product trails not just Portugal but Turkey and Hungary too. The U.S., at \$36,500, is galaxies away.

Putin needs help, fast. For the West, this pragmatic leader could be

as good as it gets for a chronically troubled country ruled in the past by the likes of Ivan the Terrible and Stalin. If Putin doesn't get a greater return on his policy of rapprochement, the West could lose a golden opportunity to bring Russia into the fold.

Russia's President badly needs the West's help in rebuilding his country's impoverished economy

COMRADES: BUSH AND PUTIN ARE SEEING EYE TO EYE



Starobin and Belton cover Russian business from Moscow.

in the city of light, over a glass of bu

Richard Girardot, General Manager of Perrier Sparkling Water Paris

ThinkPad ■ Where do you do your best thinking?



An integrated bay on select models for easier swapping of optional devices - from PDA cradles to additional batteries and hard drives. **Flexibility.** It's just one of the reasons why some of the world's most successful people choose ThinkPad® notebook computers. Select models feature a Mobile Intel® Pentium® 4 Processor-M for outstanding performance and mobility.

Call **1.877.thinkpad** or visit **ibm.com/thinkpad/think**



COMMENTARY

By Kerry Capell

HOW EUROPE COULD CURE ITS AILING DRUGMAKERS

When Germany's Bayer invented aspirin in 1897, it also invented the modern pharmaceutical industry. But unless the Continent's bureaucrats sit up and take notice, Europe's drug industry could end up someplace else: in the labs and boardrooms of the U.S.

An exaggeration? Well, consider these two recent events. Swiss drug-maker Novartis on May 6 announced it is sinking \$250 million into a new research and development center in Cambridge, Mass. That makes it the latest in a string of European drug-makers that have chosen the U.S. over Europe for major R&D investment in the past decade. A day after Novartis' announcement, the European Commission released a damning report on the state of the European drug industry.

Few in the industry are surprised by the EC's conclusions. "You can almost hear the sucking sound as all the money goes across the pond," says Barrie James, senior vice-president at Cambridge Pharma Consultancy in Cambridge, England. In 1990, European drug-makers on average invested 73% of their R&D budgets within the European Union. By 1999, it had fallen to 59%.

The Europeans just want to be where the action is. Drug sales in the U.S. have been climbing by 15% a year for the past decade, bolstered by the free-market pricing of drugs. That's nearly double the rate

in Europe, where government-imposed price controls are in force.

But the real allure of the New World is the quality of its science. Besides corporate R&D, the U.S. also draws on the research of top universities, the best hospitals, and the federal government, a power base Europe can't match. Two-thirds of the new drugs introduced in the past five years originated in U.S. labs.

As recently as 1990, Europe and the U.S. each commanded about a third of the global pharmaceutical industry. Today, Europe's cut of the \$364 billion market is down to 21%, while the U.S.'s has risen to almost 50%.

This shouldn't be. The European Union is an even bigger market, based on population and output, than the U.S. And some of the finest drug researchers on the planet are European. Europe needs to exploit these strengths better to rescue its industry and give it a reason to stay European. Here's how:

■ **Create an agency to coordinate research.** Europe needs its own version of America's publicly funded National Institutes of Health (NIH). Right now,

universities, hospitals, and government labs in France compete with their opposite numbers in Germany, Britain, and elsewhere—a surefire way to duplicate efforts and waste precious financing. A European

NIH could designate research centers focused on specific areas of disease or science and encourage them to share their findings with others.

■ **More public funding.** The NIH's \$2.6 billion annual budget is 50 times the amount allotted for R&D under an EU initiative. Brussels might want to consider a modified version of the Bayh-Dole Act. Introduced two decades ago, the U.S. legislation made it easier for universities to commercialize their publicly funded research.

■ **Reward innovation with tax breaks.** Spe-

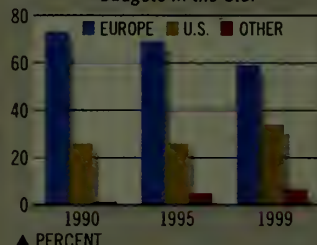
cial tax breaks for startups are a must if Europe is to close the gap with the U.S. in biotech, which is where American scientists are getting the bulk of their new discoveries. National governments could also help level the playing field by bringing the tax treatment of options in line with that in the U.S. If the high European tax rates on options were lowered, drugmakers on the Continent might have an easier time retaining top talent.

■ **Reinforce patent protection.** The U.S. has a long track record of upholding scientific patents. Europe, on the other hand, got around to introducing EU-wide legislation on biotech patents only in 2000—16 years after the U.S. Ten of the EU's 15 member states have yet to implement it.

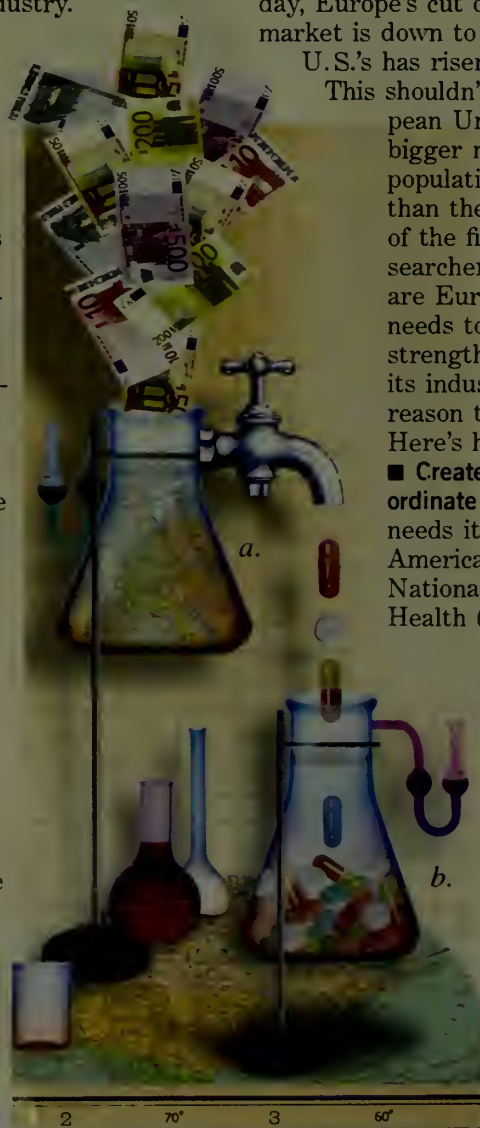
The EC has hinted at a few of these recommendations in its recent report. But many in the industry believe its proposals don't go far enough—and may ultimately create more bureaucracy. One way or another, European governments, drugmakers, and academics have to figure out how to create an environment that encourages scientific innovation. The alternative is the Americanization of what was once the most European of industries.

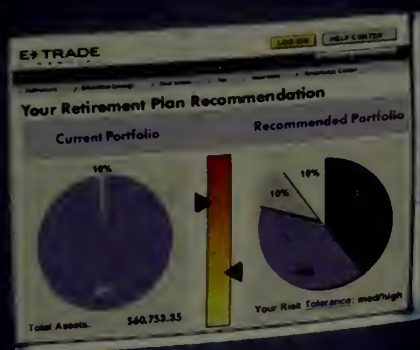
Capell covers Europe's pharmaceutical industry from London.

COMING TO AMERICA
European drugmakers are allocating an increasing share of their R&D budgets in the U.S.



▲ PERCENT
Data: European Federation of Pharmaceutical Industries & Assns.





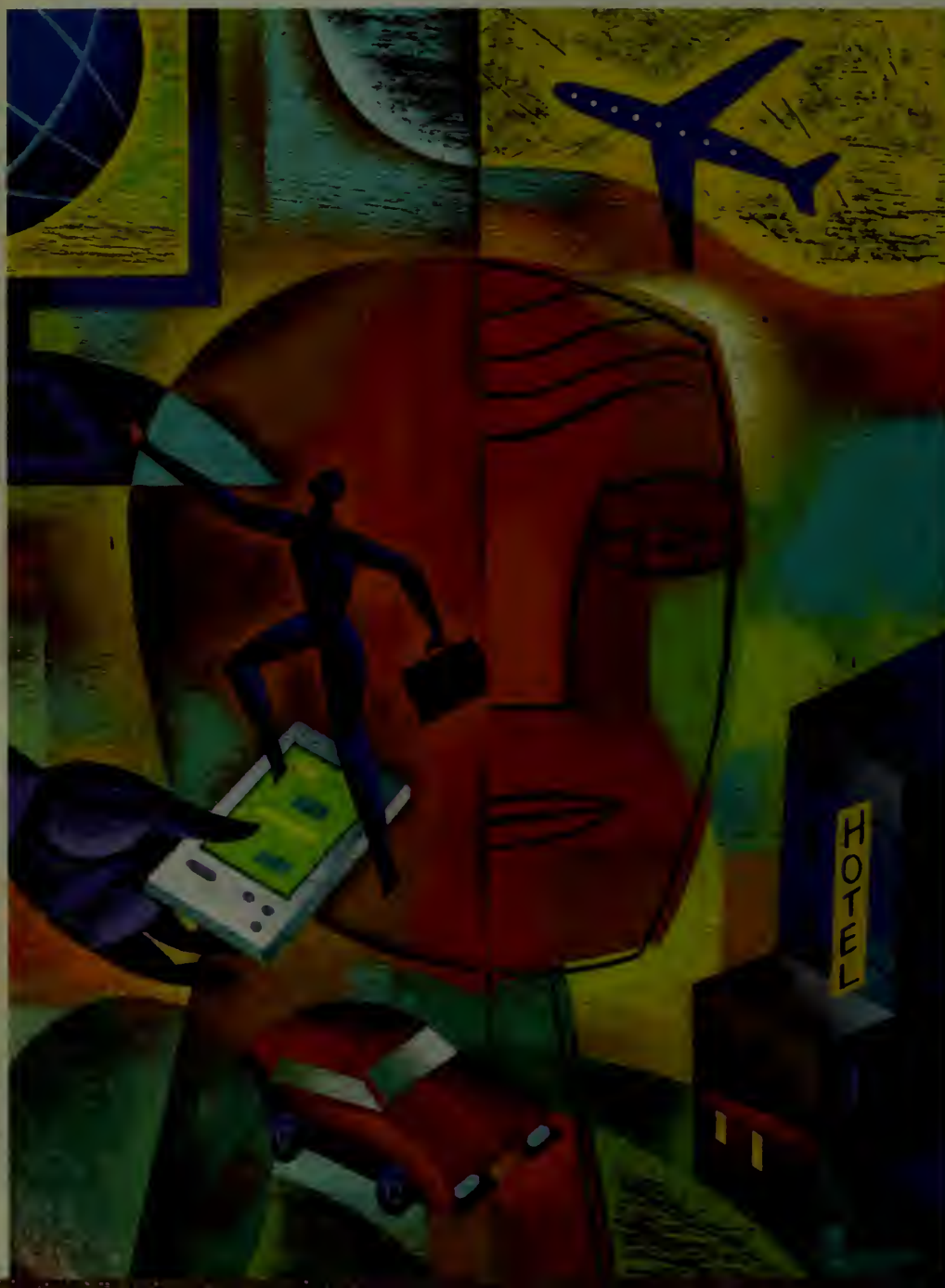
E*TRADE[®]
FINANCIAL

PLANNING • INVESTING • BANKING • LENDING • ADVICE

THE CYBER TRAVELER

Reducing Costs, Increasing Customer Satisfaction

Many of America's most successful companies are using the Web to beam down all sorts of travel-related commodities: Online purchases of plane tickets, hotel rooms and car rentals are now as routine for many corporate travelers as using e-mail for interoffice memos. But there's more to e-travel than simply making reservations. Find out here how travel suppliers are using the Web to improve service to their clients – by boosting purchasing power, pushing time-sensitive information, streamlining one of the most odious chores for the road warrior – filling out a detailed expense report – and even offering a popular new alternative to traditional travel, the Webcast meeting.



THE WEB AND THE WORK

As corporations set up travel management programs or enhance existing ones, the cornerstone is an online travel-booking system. There are two reasons why.

First, in this new no-travel-agent commission world, companies that use an agency to book travel now must pay for the privilege – usually \$50 more per transaction. Multiply that by hundreds of travelers taking multiple trips, and those fees add up quickly. Prudential, for example, was able to save \$700,000 last year *just on agency fees* by making online bookings.

Second, when corporate travelers use the Web to research flight and hotel options, more often than not they'll choose a lower-priced option, even if it means adding some inconvenience, such as making an airline connection.

There are several major suppliers of corporate travel booking solutions. One of them, **Worldspan**, offers a turnkey product called Trip Manager, which gives travel planners an Internet-based method for tracking travel purchases and guaranteeing compliance with travel policy. Trip Manager lets travelers create, change or view their air, car and hotel reservations in real time, either via the Internet or a wireless device. It is totally secure and easily linked to a corporate Web site or Intranet.

Worldspan customers – 1,300+ companies with a collective 200,000



It's not a 17th-century chateau.
It's a hotel.

Renaissance Pittsburgh Hotel

You'll be surprised by what a Renaissance hotel is and isn't. It isn't dull, predictable or typical. It is expressive design, award-winning restaurants and savvy, intuitive service. After one stay, your preconceptions of a hotel may never be the same. For reservations at any of the over 120 Renaissance locations, call your travel agent or 1-800-HOTELS-1 or visit renaissancehotels.com



RENAISSANCE® HOTELS

Now, a \$50 certificate toward your next stay.

Present your ticket from any of our airline partners listed below at check-in by June 30 and receive a \$50 certificate toward your next two-night stay at any Renaissance hotel.* Certificate expires 12/31/02.



American Airlines®  **Delta**  **UNITED**

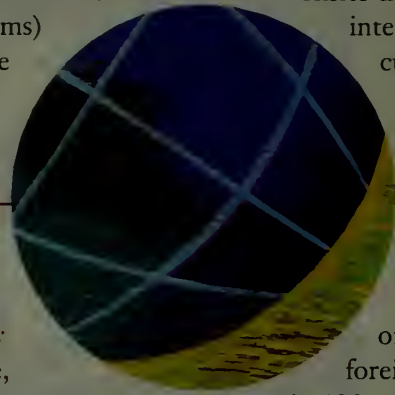
* Not applicable for groups of 10 or more, one certificate issued per stay, must be used for future 2-night stay, use of certificate not combinable with other offers. Airline travel must take place within three days prior to arrival. American Airlines® is a registered trademark of American Airlines, Inc.

travelers – are reaping significant savings from Trip Manager. “The average airline ticket purchased through Trip Manager is 10 to 15 percent less than an average airline ticket purchase,” said Cathy Spivey, senior manager for travel and meeting services for Home Depot.

Cost control, however, is just one of the advantages. The other four of Worldspan’s “5Cs” are *convenience*

(Trip Manager is accessible 24/7 from anywhere in the world), *compliance* (travelers are provided with a wide variety of choices, all in line with company policy), *convergence* (Trip Manager is easily integrated into existing enterprise systems) and *customer care*. “None of your corporate travelers will travel alone,”

said Paul Blackney, Worldspan’s president and CEO. “The help desk consultants, technical specialists and account managers will support a decision to use Trip Manager, from onsite training through net integration through customizing adoption programs that improve usage.”



PORTAL POWER

Using the Web for corporate travel purchases doesn’t necessarily mean having to hop from one vendor’s Web site to another to complete all the components (air, hotel, car rental, restaurant reservations, driving directions, currency exchange, etc.) of a business trip. Portals of various kinds – some linked to other corporate purchasing sites, some linked to even

broader based B2B marketplaces, some linked strictly to a company’s Intranet system – now give companies a whole new way to manage travel purchasing and T&E expense management.

GetThere, a subsidiary of travel reservations giant Sabre, uses secure, high-speed connections to link a corporate Intranet or a Web site to GetThere’s online booking and travel management data centers. GetThere manages all of the hardware, software, system upgrades, security, reliability, availability and system growth; it’s designed to be a kind of plug-and-play service, only without a large capital outlay for hardware and software. It’s also easy to use: employees log onto their corporate Intranet site, and click on the travel icon.

From there, it’s a few clicks to booking airline, hotel and car. Users also can check prices and availability, compare routes, and make changes to itineraries as well. GetThere is currently integrating in-depth intelligence information into its product that shows travelers up-to-date, highly-qualified information about their planned destination – health, security, events (festivals, labor strikes, rallies), exit/entry requirements, traffic issues, weather forecasts, etc.

With **Navigant’s** Custom Travel Portals, a company’s proprietary policies and vendor programs are automatically passed along at point of travel purchase. Navigant’s standard travel portal includes an information center with links to often-used sites like MapQuest.com™, City Search.com, Weather.com, etc. Customized options include actual online booking, reports on T&E spending and meeting registration.

Using the Web for corporate travel purchases doesn’t necessarily mean having to hop from one vendor’s Web site to another to complete all the components.

American Express’s “superhub” portal lets travelers research, book and buy travel and entertainment from a single Web location. Information partners include Fodor’s, Zagat Survey, Travel & Leisure, MapQuest, Playbill, Ticketmaster, citysearch.com and MovieFone. The site is backed offline by a team of travel counselors who can help with questions or problems via e-mail or phone; alternatively, travelers can tap into the company’s network

of 1,700 travel and foreign exchange service in 130 countries.

Highwire, recently acquired by GDS giant Galileo, offers a suite of corporate travel tools that lets travel plan, book and manage travel on the Web. The company’s biggest customer, Microsoft, which rolled out Highwire Travelport™ to 25,000 Microsoft employees last summer – a move that has resulted in an overall savings of 10 percent on domestic airline ticket prices.

TOP TRAVEL SITES

The online world is filled with travel sites. Here is a list of some of the most innovative ones, all of which offer interesting opportunities for corporate travel purchasing.

Yatra, which bills itself as a B2B corporate travel marketplace, pools

participating companies into an enormous “virtual buyer.” Travel suppliers then target Yatra users with service upgrades and discounts as high as 10 percent. Corporate customers include Siemens Canada, and, interestingly, several small corporate travel agencies that pass along Yatra’s purchasing benefits to their clients.

About one third of bookings at **Expedia**, now the seventh largest travel company in the world, come from

A FEW WORDS ABOUT CORPORATE TRAVEL
GUIDELINES AND EMPLOYEE COMPLIANCE.

INSTEAD OF TRYING TO FORCE YOUR STAFF

TO COMPLY WITH TRAVEL GUIDELINES, MAKE

IT EASY FOR THEM. WITH WORLDSPAN TRIP

MANAGER, COMPLIANCE (NOT TO MENTION

SAVINGS) IS BUILT-IN. CALL 1-866-764-7739

AND FIND OUT WHAT WORLDSPAN, THE

WORLD'S LEADING PROCESSOR OF INTERNET-

BASED TRAVEL BOOKINGS, CAN DO FOR YOU.

worldspan.

INNOVATIVE TECHNOLOGY THAT TAKES YOU PLACES



corporate travel. According to Matt Hulett, Expedia's director of product development, most of this corporate business comes from companies without a full-time travel manager that are turning to online procurement to control the travel-purchasing process.

New this year is .NET Alerts, a free opt-in service that allows travelers to choose to be alerted about their flight status at the time that best fits their needs, and via the device of their choice – cell phone, PC or Mac, or pager.

Travelocity, one of the pioneers of Web-based travel bookings, provides Internet and wireless reservations information for roughly 700 airlines, 50,000 hotels and 50 car rental companies worldwide. New is the firm's online concierge service, which allows Travelocity customers to

pre-book theater tickets, tee times restaurant reservations.

Orbitz, founded last year by American, Continental, Delta, Northwest and United, offers access to the greatest number of low fares on the Internet – its search engine scans more than two billion airfare possibilities in seconds, including the Internet-only airfares of 35 airlines – plus great values on rental cars and hotel rooms. Sign up for Traveler Alerts, and you get a notification (by e-mail, phone pager or voicemail) whenever there is a delay or gate change, unusual airport congestion, or even stormy weather.

CYBER MEETINGS OF THE FUTURE

For anyone who's ever sat through a dull-as-dishwater presentation, scrambling in a darkened room to scribble notes and stay engaged, there's new hope. Meeting rooms at hotels, resorts and conference centers all over the country have undergone a fundamental transformation. Instead of merely supplying a comfortable, well-lit room with a slide projector and pull-down screen, the meeting room of the future is now wired to the hilt with all sorts of interesting equipment to support interactive presentations, Web conferencing and videoconferencing.

"Today, as a matter of course, meeting planners are asking for technology that didn't even exist a year ago, and we've got it," said Jim Pribyl, director of convention services for the 778-room Renaissance Orlando Resort at SeaWorld, which has installed a new, high-speed STSN system and videoconferencing capability throughout the hotel. Corporate groups have used the multiple access points in the hotel's 45 meeting rooms to set up their own conference networks at which attendees can follow presentations, check the schedule, and communicate with each other.

The technology at the SeaWorld property is available at all **Renaissance Hotels & Resorts** properties. The company now offers EventCom

Technologies by Marriott (the parent company of Renaissance), a one-stop service for any meeting involving satellite, audio, video and Internet conferencing. Call a central number, and EventCom coordinates contracts with multiple Marriott hotel sites, assists with event management, and provides technical and communications support and centralized billing.

Hilton Hotels Corporation is also leagues ahead of competitors in terms of hard-wiring in high tech meeting capability. The company now offers T1 lines in all conference rooms in the 220 hotels that it owns. And some hotels, especially in parts of the country with a lot of high tech businesses, are built specifically for a tech-savvy clientele.

At the Hilton Santa Clara, in the heart of Silicon Valley, there is wireless Web access from all public areas, including conference rooms, the lobby, lounge, and health club. Meeting space features fiber-optic cabling, allowing streaming video and multimedia presentations.

In Texas, near DFW Airport, the Hilton Lakes Executive Conference Center features the futuristic Digital Solutions Room. More than 80 connections for power, voice, data and AV support are concealed under the floor; fiber and Cat5E tie lines connect other meeting rooms at the property, to an office, or to other meeting sites. Layouts

can be changed quickly to provide workspaces appropriate to the meeting objectives, and high-speed Internet access hooks up to Web conferencing services such as WebEx.

For customers seeking help setting small videoconferences, seven Hilton hotels around the country offer the Hilton TeleSuite Network. These Telesuites, each of which seat up to 12 people, are designed so that participants appear life-size and seem to be across the "same" conference table from each other.

WRITER: Jill Molyneaux is a business travel specialist and former editor-in-chief of *Corporate Travel* magazine.

DESIGN: Sundberg & Associates Inc

ILLUSTRATION: Raphael Lopez

PRODUCED BY: MeigsMedia, Ltd., Millbrook, N.Y.
E-mail: jon@meigsmedia.com
www.meigsmedia.com

ADVERTISERS' WEB ADDRESSES

Hilton Hotels Corporation
www.hilton.com

Renaissance Hotels, Resorts & Suites
www.marriott.com

Worldspan
www.worldspan.com

For information about Special Advertising Sections, e-mail Stacy Sass McAnulty at: stacy_sass-mcanulty@businessweek.com.



Six days. Anywhere. On us.



We're giving away a Trip a Day to any Hilton HHonors® location worldwide. Airfare included.



It's right. We'll choose a winner each day to win a 6-day, 5-night trip for two to any



Hilton HHonors destination in the world. That's over 2,300 places to choose from. If you are a



member staying in an HHonors hotel on a Double Dip® stay between June 1 and September 30, 2002,



you could win. The more Double Dip stays you have during this time period, the more chances you



have to win! And, if you win, your trip can be taken any time before December 31, 2003. To learn



more about how to enter, enroll in Hilton HHonors or make reservations, go to hiltonhhonors.com.



Use necessary to enter. Void where prohibited by law. You must be age 18 or older, a legal resident of the 50 United States (excluding Florida) and the District of Columbia, resident of Canada (excluding Quebec), or a resident of the United Kingdom or Germany, who is, as of June 1, 2002, over the age of majority in your province of residence to enter. Sweepstakes begins on June 1, 2002, and ends on September 30, 2002. For a copy of the Official Rules, go to www.hiltonhhonors.com or send a self-addressed stamped envelope to "Hilton HHonors® Trip A Day Giveaway" Sweepstakes, c/o Roth Graham, Inc., P.O. Box 270090, Minneapolis, MN 55427-6090, USA. Hilton HHonors membership, Hilton HHonors Points & Miles™ and redemption of points are subject to HHonors Terms and Conditions. ©2002 Hilton HHonors Worldwide.



PHARMACEUTICALS

THE BACKLASH AGAINST BIG PHARMA

Companies, consumers, and government join forces

After years of double-digit increases in prescription drug costs, employers and state governments that pick up a lot of the tab have reached the breaking point. Now, a battle is erupting in courtrooms, state capitols, the insurance marketplace, and the halls of Congress over the high cost of prescription drugs. At stake are hundreds of billions of dollars in drug sales.

Brand-name drugmakers—among the nation's most politically well-connected—are suddenly on the defensive. In recent months, an unusual alliance of states, insurers, consumer groups, and large companies has lashed out at the punishing increases in pharmaceutical costs. Democrats, who hope to portray themselves as the party of lower drug prices, are cheering from the sidelines. One strategy: Force down prices by boosting the use of generics.

As everyone piles on, powerful brand-name-drug companies from Merck & Co. to Eli Lilly & Co. may face lower margins in the wake of pressure to cut prices. Generic drugmakers, meanwhile, such as Barr Laboratories and Mylan Pharmaceuticals Inc., hope to tap the

mounting anger to gain market share. Employers and states that foot the bill for many drugs don't care much who profits—they just want to slash costs. Says Paul B. Ginsburg, president of the Center for Studying Health System Change in Washington: "Payers are getting more and more desperate."

It's not difficult to see why. Last year, Americans spent a staggering \$172 billion on medicines, 17% more than in 2000. Of that, \$32 billion went for just 10 brand-name drugs, such as the cholesterol reducer Lipitor or the stomach drug Prilosec. Meanwhile, on average, a generic prescription runs \$46 less than a brand name

(chart). South Dakota, which like other states shoulders the prescription costs for its employees and Medicaid recipients, shelled out \$1.4 million in 2001 on Prilosec alone. "Medicaid's breaking us," groans Governor Bill Janklow.

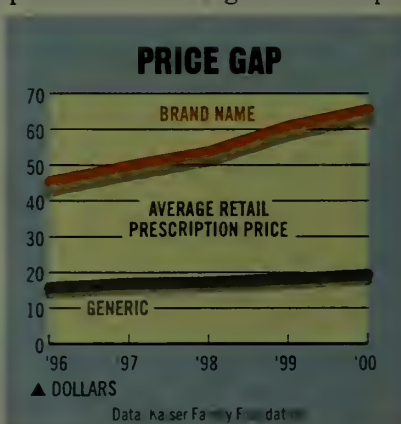
Such pressures are galvanizing opposition. In Washington, Generators Corp. and other major employers have joined Blue Cross, the AFL-CIO consumer groups, and governors in at least 11 states. Their goal: Push Congress to speed generic drugs to market. The measure would make it tougher for a brand-name drugmaker to block a competitor from bringing a drug to market just as its patents expire. Brand-name companies say they need such protection to earn the returns required to support costly research.

At the same time, the Bush Administration is taking aim at some of the tactics the drug industry uses to keep up brand-name medicines. The Federal Trade Commission has brought suits against companies that effectively block generic competitors to keep low-

cost substitutes off the market for months after patents expire. This summer, the agency will release a study outlining widespread use of such arrangements. State attorneys general and consumer groups have brought class actions against makers of at least a dozen drugs for similar activities. One, involving

the anxiety drug Atavan, was partially settled in February.

Consumer groups are pushing generic drugs with campaigns aimed at convincing patients to request Brand X from their doctor or pharmacy. In mid-April, a



EMPLOYERS ARE SEEKING A SECOND OPINION

d out a \$10 million advertising blitz the message: Don't believe everything you see in those drug-company ads. The campaign is part of a larger attempt by the powerful seniors' group to take more activist stances on a wide range of political topics (page 68).

Some of the biggest battles are brewing over Medicare, which provides health care for 40 million seniors, and Medicaid, which does the same for 36 million poor and disabled Americans. States pay about half the cost of Medicaid—Washington covers the rest. The tab jumped 14% last year, largely as a result of higher drug costs. In response, about a dozen states are forming buying groups in an effort to get volume discounts for the massive amounts of drugs purchased for both the poor and their own employees.

The drugmakers have struck back. Their lobbying arm—the Pharmaceutical Research & Manufacturers of America (PhRMA)—has sued, claiming that states are illegally fixing prices. One case, involving an aggressive move by Maine to force lower prices, is now pending before the U.S. Supreme Court.

The brand-name-vs.-generic brawl is swirling. Washington's efforts to devalue a Medicare drug benefit. Both political parties say they want to help seniors allay soaring prescription costs. But there's deep disagreement over how to do so. Many Democrats want the government to negotiate directly with drug companies, just as it now does Medicare fees for doctors and hospitals. But the drug industry, backed by many congressional Republicans, wants a market-oriented approach that allows seniors to buy drugs through private insurers or drug middlemen and pharmacy-benefit managers. Either way, seniors will pay much less for brand-name drugs, and cheaper generics are likely to benefit.

Big Pharma says all the ire directed at drug costs is misplaced. True, prices are higher. But better medications reduce other health-care costs. "They make a mistake when they focus just on the drug budget," insists Alan F. Holmer, president of PhRMA. Still, as cries from critics grow louder, drugmakers may soon face lower prices as they struggle to fend off generic competitors and their newfound corporate and government allies.

By Howard Gleckman
in Washington

The pharmaceutical industry likes to say that prescription drugs make up only 9% of every dollar spent on health care. For businesses that insure retirees and employees, however, prescription drug costs can be much higher—as much as 20% of total health-care expenditures. And they are rising. In a recent survey of 3,000 employers with more than 500 employees, Mercer Human Resource Consulting LLC found that prescription drug costs per employee rose 17.8% in 2001.

Some companies that have tried for years to trim drug use are now taking a more sophisticated approach. General Motors Corp. and Verizon Communications Inc., both large employers, are each undertaking extensive reviews, using elaborate mining of employee data. One fertile area for improvement: data on the overuse and improper use of drugs. By identifying, then eliminating, incorrect uses, administrators say they are hoping to cut costs without compromising health care.

They're also mounting educational campaigns to change employee behavior. GM, for example, has launched a program to educate its employees about the cost-effectiveness of generic drugs and to persuade workers to use them when appropriate. The company sends out newsletters, broadcasts, and messages on pay stubs to encourage workers to ask their pharmacists about generic drugs. In 2000, 35% of drugs taken by GM employees were generics. Although that number has only inched up to 39%, the increase has still saved GM \$48 million over the past two years.

When New York-based phone company Verizon took a closer look at its soaring expenditures for prescription drugs—which amounted to nearly \$500 million last year—it found some surprises. Combing through the drug histories of its 380,000 workers and retirees, it discovered it was spending \$100 million a year on two classes of drugs—ulcer medications such as AstraZeneca's Prilosec, and cholesterol-lowering drugs, including Lipitor and Zocor,

made by Pfizer Inc. and Merck & Co., respectively. "The question is, 'What did people do before these drugs were around?' They took other medications that were less expensive. And for most of the population, they were just as effective," says James N. Astuto, a Verizon regional health-care manager in Atlanta. Patients who can use the less costly medicines are being encouraged to switch, and the newer drugs are reserved for those who really need them, Astuto says. Rather than rankle employees, the new drug reviews have gone over well. "This is very much focused on making sure people get adequate treatment," says Candice Johnson, a Communications



CASH DRAIN: Are new pills really better?

Workers of America spokeswoman.

The brand-name drugmakers, meanwhile, argue that there's a reason their products cost more. They "have fewer side effects, are easier to comply with, and have greater health benefits," says Alan F. Holmer, president and CEO of industry trade group Pharmaceutical Research & Manufacturers of America. Although critics say that is true of some new drugs, it ultimately depends upon the patient. Some may need the new drugs, they insist, while others will do fine on older, less expensive medications. Companies that are able to make those distinctions have a sterling opportunity to reduce costs—without degrading the quality of care.

By Paul Raeburn in New York,
with Amy Barrett in Philadelphia,
and bureau reports

CAPTAIN AARP'S WAR ON DRUG COSTS

The nation's largest seniors' group had lost its spark. That, at least, was the rap on AARP in Washington circles. But CEO William D. Novelli, an entrepreneur-turned-social advocate who took the helm last year, is betting that he can rejuvenate the AARP, with its 35 million-member grassroots army, bigger than either the National Rifle Assn. or the AFL-CIO. Novelli hopes to expand its ranks even more by appealing to 50-plus baby boomers. He also wants to apply its muscle to a wide range of social and political causes. First up: curbing drug prices by advocating generics over brand-name pills.

To push for cheaper generic drugs, the 62-year-old Novelli, a co-founder of marketing powerhouse Porter Novelli, launched a four-month, \$10 million TV ad campaign on Apr. 21 aimed at urging seniors to save money by switching from brand-name drugs. The ads so angered the big drugmakers that the TV networks insisted AARP tone them down (which it did). Then AARP joined the defense of a handful of states being sued by the pharmaceutical industry for trying to apply lower Medicaid drug prices to non-Medicaid patients, as well, including state employees. AARP also joined antitrust cases accusing drugmakers of manipulating the drug-approval process to keep generics off the market.

Novelli's next move: ramping up his political operation. Over Memorial Day, AARP will run ads and host rallies around the country, a prelude to the fall election season, when AARP will mount a multimillion-dollar ad and get-out-the-vote blitz in 70 gubernatorial and congressional races. Volunteers will hand out voter guides and set up phone banks, while AARP airs ads on issues such as Social Security and drug costs. "We've been accused in the past of not taking a sufficient leadership role, but I think we're past that," says Novelli.

The first big test comes over the next few weeks, when House Republicans are expected to introduce a plan to include drug coverage in

Medicare. The proposal has come under fire from consumer groups like Families USA, which says it would do little to save seniors money. "The bill is a sham, and many folks will be looking at AARP's position on this to see how direct and forthright they



WILLIAM D. NOVELLI

BORN 1941, Pittsburgh

EDUCATION BA, University of Pennsylvania; MA, Penn's Annenberg School for Communication

EXPERIENCE Director of advertising for the Peace Corps, co-founder and president of marketing firm Porter Novelli; executive vice-president of relief group CARE; president, Campaign for Tobacco-Free Kids

BIG ACHIEVEMENT Helped engineer \$246 billion tobacco settlement in 1998

CURRENT JOB AARP CEO

FAMILY Wife, Fran; three children; one grandson

are," says Families USA Executive Director Ron Pollack. So far, Novelli is staying mum while AARP lobbyists negotiate with GOP officials over issues such as drug premium costs.

But if AARP comes out swinging, it would signal a major shift. The group had retreated from the limelight after getting burned in 1988 for supporting a failed plan for cata-

strophic health-care coverage in Congress. It was stung again in 1991 when it endorsed a measure that ended up taking a bigger tax bite out of Social Security payments. Many AARP members blamed the organization for failing to stop the bill, and thousands quit. AARP drew back from politics, and advocacy groups with a more ideological bent moved into the breach, including the liberal Families USA and the conservative United Seniors Assn. "When AARP speaks, Congress listens. But they need to speak with a louder voice," says Representative Clay Shaw Jr. (R-Fla.), chairman of the House subcommittee on Social Security.

How far will Novelli go? Washington is watching closely. As president of the Campaign for Tobacco-Free Kids, he waged war on cigarette makers with ads that showed pigtailed adolescents lighting up. It was the first time the public health community used paid ads to promote its agenda and the campaign earned Novelli a reputation as an attack dog. "I guess I got a little carried away during the tobacco wars, but that was required," he says.

More than policy is at stake. AARP pulls in \$43 million a year from brand licensing, magazine advertising, royalties, and health insurance—almost three times as much as its \$164 million in dues. Novelli wants to boost that income. Last year, the group launched *My Generation*, a magazine targeting AARP's 3.9 million aging boomers. This spring, it premiered a Spanish language quarterly called *Segunda Juventud* ("Second Youth"), which targets 425,000 Hispanics in four cities and Puerto Rico. Novelli's next stop: Europe, where the population skews older, making it ripe for its own AARP chapter. "AARP is going to be one of the megabrands of the century," predicts Novelli. Maybe so, but first he must sell his message at home.

By Lorraine Woellert
in Washington

THE NEW 2003 JAGUAR S-TYPE Beneath its classic, sultry curves, lie the latest advances in technology and performance. We've transformed this stunner into a technological marvel, with a first-in-class 6-speed automatic transmission, refined suspension and Dynamic Stability Control. What that means to you is silky, smooth precise handling and a confident ride, even in the most extreme conditions. The new incredibly well-rounded S-TYPE. Beyond beautiful. **Exceptional at \$44,975.***

jaguar.com/us 1-800-4-JAGUAR

TOUQUESTRESS ON THE OUTSIDE.

MARK RAVING TECHNOLOGICAL MANIAC ON THE INSIDE.



THE NEW S-TYPE

The art of performance



*MSRP. Excludes 6-speed automatic and moonroof. Taxes, title and registration fees extra. ©2002 Jaguar Cars

Already beset at home, the firm is reeling from scandal and stumbles in Germany



That scandal could set back KPMG's hopes for growth in Europe. Talks to merge with the German unit of Arthur Andersen LP fell apart in the wake of the Comroad scandal. And with in-

FOOLED KPMG approved books of German tech company Comroad. In April, an audit by a new firm found 97% of Comroad's 2000 revenues to be fake. Former CEO Bodo Schna-

MASSIVE REAUDITS In the wake of Comroad, KPMG will go over the books again of all 35 of its clients listed on the tech-oriented Neuer Markt.

DROPPED THE BALL KPMG may become embroiled in the questionable financial practices at Zurich-based FIFA, the organization that oversees World Cup soccer.

LOST OPPORTUNITY Arthur Andersen's German partners, seeking refuge from the Enron scandal, unexpectedly canceled plans to merge with KPMG after the Comroad disaster popped up. Instead, they joined Ernst & Young.

Data: *BusinessWeek*

Germany, which lacks the class action statutes and litigious culture of the U.S. And investors at German software maker SAP organized an American-style shareholder revolt at the an-

Last year, sales of the German bank, which boasts such blue-chip clients as Deutsche Bank and Dai-ichi Kangyo Bank, surged 25%, to \$1.3 billion, more than 10% of KPMG's worldwide total. On April 1, Harald Wiedmann, KPMG's German chief, assured analysts that the talks with Andersen "are on track." The deal would boost KPMG's

enues in Germany to about \$1.8 billion and cemented its dominance in the country. But less than a week after KPMG avowed Comroad's accounting, Andersen backed out, choosing instead to partner with Ernst & Young Deutschland. Andersen says the decision was not related to the Comroad mess. Wiedmann was unavailable for comment.

There are no signs of mass client defections at KPMG Germany and the firm says its revenues grow 10% annually. Still, KPMG has two key revenue bases, the U.S. and Europe. With KPMG coming under fire in the U.S. for its part in the Xerox mess, it can ill afford to lose group



Marketing

AUTOMOBILES

MEET THE UBER MERCEDES

The Maybach ups the stakes
in the ultra-luxury car market



Mercedes-Benz's \$116,000 S600 sedan would seem adequate for even the most discerning driver. It features a powerful engine, ultrasmooth ride, and self-activating windshield wipers. Then there is the phone, the CD player, and the navigation system, not to mention the bar.

But if that's not enough to satisfy your driving needs, fear not. A handful of carmakers are reviving superluxury, super-high-priced brands. DaimlerChrysler's Mercedes unit is relaunching the legendary Maybach—an 83-year-old brand that has been gussied up with high-tech gadgets and customized styling.

One customer wanted a Maybach, which starts at \$300,000, to be paneled with wood from a favorite but dying tree in his garden. Rolls-Royce and Bentley are unleashing their own super-high-end models.

This is more image-enhancer than profit center for auto makers. Still, Mercedes says it can sell 1,000 of these one-of-a-kind cars a year with about 400 slated for the U.S. So far it has more than 200 orders, including one from King Abdullah II of Jordan.

Mercedes-Benz USA is meeting with its 350 dealers to determine which 80 to 90 will get Maybach franchises. Those that do are expected to spare no expense in giving buyers personal attention. Owners will be able to reach a sales agent round the clock by pressing a button on the car-phone keypad. Still, making the

Maybach an object of American auto envy is no small task. For Americans, Rolls Royce and Bentley are "the epitome of wealth," says Wesley R. Brown, a consultant at Nextrend Inc. in Thousand Oaks, Calif.

At 18.8 feet, the car is about the same length as the mammoth Ford Excursion sport-utility vehicle. The company will unveil the Maybach at the Paris car show, the *Mondial de l'Automobile*, on Sept. 26, but it won't go on sale in the U.S. until the following spring. Although it's owned by Mercedes, the Maybach is not an adaptation. It has a 12-cylinder engine with twin turbochargers to deliver 550 horsepower, nearly 200 more than the most powerful Mercedes engine.

The vehicle's double-M emblem, for Maybach Manufaktur, evokes the 1,800 Maybach limousines built in the 1920s and '30s. The cars, favorites of stars like Marlene Dietrich and Enrico

Caruso, were as reliable as they were luxurious: Some 150 are still in circulation.

Mercedes will soon have company.

BMW will roll out a \$250,000 Rolls sedan in January. Volkswagen, which acquired Bentley in 1998, is competing with a muscular Bentley GT Coupe. A slew of super sports cars are also in the works, including a \$900,000 Bugatti monster being built by VW, the brand's new owner. Cadillac may weigh in with a V-12 super sports car for \$150,000.

Is there demand? Auto makers insist they can sell 10,000 of these cars a year around the world. Buyers at these prices tend to coast above economic ups and downs. Ferrari, for instance, boasted a three-year waiting list in the U.S. at the recent downturn's trough. "These people think, 'Do I buy a yacht, an apartment in Paris, or another car?'" says a Mercedes sales executive.

By Christine Tierney in Frankfurt, with David Welch and Kathleen Kerwin in Detroit



WHAT A \$300,000 MAYBACH INCLUDES:

Daimler's new super-luxury Maybach sports features you won't see on the average car.

CONVENIENCE State-of-the-art cell phone, DVD player, flat-screen TV, fax—and a "liaison manager" to handle any problems.

SAFETY Top Mercedes-Benz technology, including electronic collision detectors.

COMFORT Custom-made interiors use exquisite woods, leather, and stone, with individual climate controls for each passenger. Stretch version has reclining seats in the rear.



Data: Mercedes-Benz

many, Europe's largest market. KPMG's problems in Europe go beyond one botched audit in Germany. A German client, speech-recognition software maker Lernout & Hauspie, indicted two years ago, admitting to non-tent sales on its books. And last year, another German client, FlowTex, a bankrupt maker of drilling equipment, found guilty of manipulating sales. The auditor paid creditors \$45 million in case. At the time, KPMG said it made the payment to avoid a long legal battle. "Trust in KPMG just isn't there anymore," says Reinhold Keitel, a director at the Protective Association of All Shareholders, an investor advocacy group.

KPMG may soon find itself part of another nasty and very public scandal, one in Switzerland, where the firm was the auditor for the organization that runs World Cup soccer. The president of Zurich-based Fédération Internationale de Football Assn., or FIFA, is under fire from within the organization for alleged financial mismanagement.

KPMG's "we were fooled, too" defense might be valid, some observers say

At bribery, and misuse of funds. Within the soccer federation are asking if KPMG was diligent enough in auditing any suspected financial wrongdoing. Already, in an echo of the failed merger with Andersen in Germany, Andersen partners in Switzerland have urged KPMG to merge instead with Ernst & Young. KPMG Switzerland declined to comment.

With both Comroad and FlowTex, KPMG says that it was the victim of fraud—and indeed, some observers think that the "we were fooled, too" defense is valid. "Comroad is not an accounting issue. This is fraud," says Hans-Georg Bruns, a member of the International Accounting Standards Board and the former chief accounting officer for DaimlerChrysler. Still, Comroad's accounting was questioned by German news media as early as 2001, and KPMG did not quit working with Comroad until Feb. 19.

At the very least, KPMG's problems will accelerate debate about Germany's lax oversight of financial markets and corporate conduct—a depressingly familiar story.

By Jack Ewing in Frankfurt, with
Nette Byrnes in New York



*“ I saw an oak once,
two hundred years
dignified, devastated
by a vine more
enormous than the
tree... My depression
had grown on me*

*as that vine had
conquered the oak;
it had been a sucking
thing that had wrapped
itself around me, ugly
and grotesque and
more alive than I ”*

A CEO AND HIS SON

The remarkable saga of Howard Solomon, his son Andrew, and his company, Forest Labs... *...A journey of depression and hope*

BY SUSAN BERFIELD

When Andrew Solomon, then 31, fell into a deep depression in 1994, his father's life changed immediately and immeasurably. Howard Solomon, the head of a modest drug company in New York City called Forest Laboratories Inc., brought Andrew to live with him the day his son started taking medication. At first, says Howard, "I didn't understand what Andrew was suffering, that he was really ill. I told him, 'Cheer up, hang in there, it will pass.' Andrew made me understand. We were fortunate that he could articulate his terror." Howard, 67 at the time, became Andrew's nurse, advocate, and companion. He woke Andrew every morning, assuring his son the hopelessness would fade; he ate dinner with Andrew every night, cutting up his son's food when Andrew couldn't. In this way, the Solomons could be any parent and child torn together by a serious illness. What sets them apart



Cover Story

is how the experience transformed both them and the company that Howard Solomon has run for the past two and a half decades. Solomon is remarkably reserved, a lawyer by training, a man used to going about his business unnoticed. But now his professional and personal lives, once as separate as any chief executive's could be, are intertwined. All too familiar with the harrowing nature of depression and impressed by the efficacy of some medications for it, Howard sought to license a popular European antidepressant that was unavailable in the U.S. It was a decision that would change the fortunes of Forest. Andrew, who emerged from the worst of his melancholy after several months, went on to write an agonizingly intimate book about the disease. *The Noonday Demon: An Atlas of Depression* was published in June, 2001, and won the National Book Award for nonfiction. He concludes with this thought: "Curiously enough, I love my depression. I do not love ex-

periencing my depression...I love who I am in the wake of it."

Today Forest Labs is a dramatically different company from what it was eight years ago. Its antidepressant, Celexa, is the fastest-growing of its class of drugs, which includes Prozac, Paxil, and Zoloft; its share of new prescriptions is

Cover Story

17.5%. Since its U.S. launch in September, 1998, Celexa has come to account for almost 70% of Forest's overall sales—about \$1.6 billion in the fiscal year that ended on Mar. 31. That's more than five times the level before Celexa was introduced. Profits have grown from about \$37 million in 1998 to \$338 million last year. Forest's share price has quadrupled in that time, from \$20 to nearly \$80. This year, the company ranks 18th on the BusinessWeek 50 list of top-performing businesses in the Standard & Poor's 500. And Solomon turned out to be the third-highest-paid U.S. executive in 2001 in BusinessWeek's annual survey, largely because he cashed in stock options worth some \$147 million.

Solomon has put Forest's newfound wealth to good use: The company has licensed several other drugs from European pharmaceutical companies. Four should receive Food & Drug Administration approval and be launched within a year, one is under review at the FDA, and

one may soon be ready for the agency's consideration. "Forest is doing exactly what it should be doing. It has a legitimate shot at becoming a much bigger company," says Marc Goodman, an analyst at Morgan Stanley Dean Witter & Co.

Of course, four years ago few outside the company expected Celexa to make much of an impact: By the time the drug was introduced, Prozac was a cultural icon and its rivals were almost as well established. "Celexa changed attitudes throughout the industry," says Robert C. Hazlett, an analyst at Robertson Stephens. "Forest took a modestly better product to market after others, priced it aggressively, and had spectacular and continuing success."

But Solomon is now vulnerable to criticism that Forest's marketing is exceedingly enterprising, its profits unconscionably high. He is still getting used to this; one senses he takes it personally. In his letter to shareholders last year, Solomon wrote: "The pharmaceutical industry contributes more to human well-being—to health and longevity, to the relief of pain and misery and ultimately to human happiness—than any other industry...It is absurd to suggest that there is some villainy in pharmaceutical companies developing and marketing new products."

At the same time, Solomon's personal life has been laid bare. In *The Noonday Demon*, Andrew reveals a good many of his family's quiet

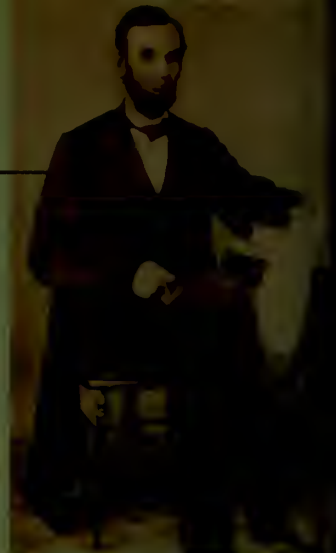
THE FACES OF DEPRESSION

Depression has always been with us. It has gone by different names, been attributed to various causes, and treated in a variety of ways. Depression knows no boundaries, and its symptoms are the same for everyone: relentless despair.

Data: *On the Edge of Darkness: Conversations About Conquering Depression*, by Kathy Cronkite: Los Angeles Times; BusinessWeek



MARK TWAIN passed through a period of deep depression toward the end of his life after his wife and two daughters died. His obituary in the Associated Press read in part: "It was the end of a man outworn by grief and acute agony of body."



ABRAHAM LINCOLN suffered bouts of melancholy throughout his life. During one, he wrote: "I feel we are equally distributed the whole human family, I would not be one cheerful on the earth."

EMILY DICKINSON, who lived in solitude and published little during her life, wrote a poem about a breakdown that begins: "I felt a Funeral, in my Brain."



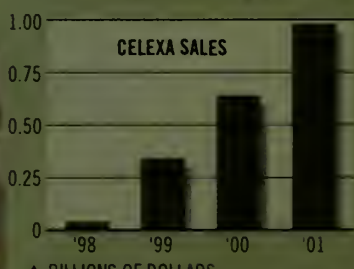
Number of American adults who suffer some form of depression in a given year

19
MILLION, OR
1
OUT OF
10

struggles. He writes of his mother's decision to end her life in 1991 when her cancer was deemed incurable. Andrew, his father, and his younger brother, David, shared a snack of English muffins and tea with Carolyn Solomon before she took Seconal pills. And Andrew writes of his attempts to contract HIV and so have an excuse for suicide. (He shows signs of being infected with the virus.) Howard, a man only described as patrician, unfailingly well turned out, invariably soft-spoken, says: "We used to be a private family. And although he does not readily speak of intimate matters, he will say that after his wife died he was incapacitated by grief, "depressive" in his words. "It never occurred to me then to take drugs," he says. "Now I would."



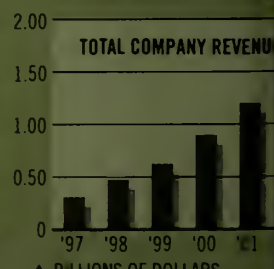
AS ITS DEPRESSION DRUG STORMED THE MARKET...



▲ BILLIONS OF DOLLARS

Data: Forest Laboratories, SG Cowen Securities Corp., Bloomberg Financial Markets

...FOREST GREW IN AN INDUSTRY THAT...



▲ BILLIONS OF DOLLARS

COLE PORTER

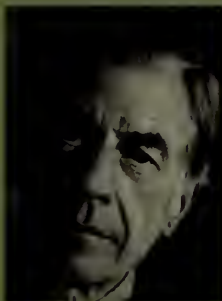
revived his career with the Broadway musical *Kiss Me, Kate* in 1948, but soon afterward fell into despair. He underwent electroshock therapy but recovered. Porter died



BUZZ ALDRIN was the second man to step on the moon in 1969. Within a few years, though, he began suffering depression, what he came to call "the melancholy of things done."

JOHN KENNETH GALBRAITH

once said: "Anybody can have a depressing day, I do regularly. But I don't identify that with a real continuing [Churchill] type of black dog, which I certainly have had. It's just deeper and worse, and persists."



W. CHURCHILL called his "the black dog" because it was always trying to master.

Indeed, the National Mental Health Assn. estimates that 1 in every 10 adults suffers from some form of depression in a given year. "It's the family secret that everybody shares," says Andrew. Nonetheless, the stigma persists. An NMHA survey conducted in 2001 found that only 1 out of 5 individuals with depression or an anxiety disorder seeks treatment. That has profound social and economic consequences. The cost of depression and anxiety in the mid-1990s was nearly \$1 billion, according to a study published three years ago by Timothy P. Rice of the University of California at San Francisco. Direct treatment accounted for some \$41 billion of that amount. Lost productivity accounted for more than \$63 billion; the rest was the cost of crime and welfare. "A first step

would be to say that depression is a major problem in the workplace," says Dr. Benjamin Druss, an assistant professor of psychiatry and public health at the Yale School of Medicine who is conducting similar research.

Depression is the flaw in love. To be creatures who love, we must be creatures who can despair at what we lose, and depression is the mechanism of that despair...Love, though it is no prophylactic against depression, is what cushions the mind and protects it from itself. Medications and psychotherapy can renew that protection, making it easier to love and be loved, and that is why they work.

—The Noonday Demon

Solomon ended up running Forest almost by happenstance. He was the company's outside counsel in the 1970s when the chairman, a close friend, was accused of inflating profits. The board of directors asked Solomon to investigate; he concluded that the chairman, Hans Lowey, was in the wrong. Lowey resigned, and Solomon took over as chief executive in 1977. (He became chairman four years ago.)

Back then, Forest, which had gone public in 1967, was worth about \$3 million. Solomon first got the company

out of vitamins and candy and into generic drugs: For several years, it manufactured one product, for angina, and sold it overseas. Then Solomon decided Forest should sell branded drugs under its own name instead. Over the next decade and a half, he licensed several minor drugs that kept the company growing about 20% a year. But Forest remained relatively obscure. Few outside the industry knew of it; most Wall Street analysts ignored it. Then Solomon found Celexa.

After learning about the drug (known in Europe as Cipramil) while researching treatments for Andrew, Solomon was eager to speak with the head of H. Lundbeck, the Danish company that had developed it. At that point, though, CEO Erik Sprunk-Jansen had all but given up trying to sell Cipramil in the U.S. He had signed licensing agreements with no fewer than three big U.S. pharmaceutical companies, only to watch each collapse. Sprunk-Jansen "was very cool to the idea of dealing with another company," says Solomon.

So one day in mid-1995, Solomon called from New York, led Sprunk-Jansen to believe he was in Copenhagen, and casually suggested he stop by sometime. Sprunk-Jansen invited

Share of those seeking treatment who were prescribed antidepressants in 1987

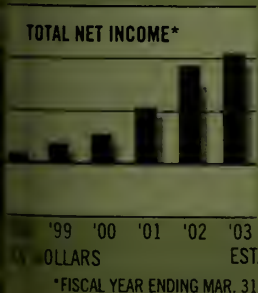
(a year before Prozac came out) and in 1997

37%
vs.
75%

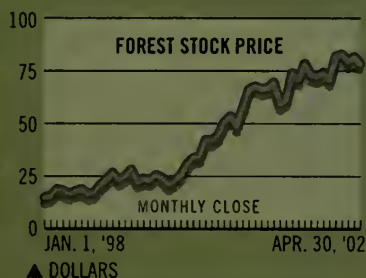
Percentage of the same group who received psychotherapy in 1987 and 1997

71%
vs.
60%

NOT CRANKED OUT DEPRESSIVE PROFITS...



...AND WON APPLAUSE ON WALL STREET





HOWARD SOLOMON

BORN Aug. 12, 1927, New York.

EDUCATION BA in Social Sciences, City College of New York, 1949; LLB, Yale Law School, 1952.

CURRENT POSITION CEO, Forest Labs, since 1977; chairman since 1998.

BEST BUSINESS DECISION Licensed a popular European antidepressant from H. Lundbeck in 1996. The drug, sold in the U.S. as Celexa, rang up sales of \$980 million last year.

HIS PRIMARY IMPETUS When his son Andrew was afflicted by depression, Solomon researched treatments and found that Lundbeck's drug wasn't available in the U.S.

PERSONAL TOUCH At Celexa's launch, Solomon recanted from the draft of Andrew's book about depression.

THOUGHTS ON DEPRESSION

"It makes you deal with life's problems: love and unrequited love. It makes you deeper."

FAMILY Widowed; two sons, Andrew and David.



him to lunch the next day. Solomon flew over on the Concorde. During the meeting, Solomon mentioned that he was a member of the board of directors of the New York City Ballet: Sprunk-Jansen has a great interest in ballet, and the NYCB's ballet-master-in-chief just happens to be another Dane, Peter Martins. Solomon arranged for Sprunk-Jansen and his

wife to attend a performance in New York and meet Martins afterward. During one

dinner on their trip, Sprunk-Jansen's wife, Randi Kindem, who had run Lundbeck's subsidiary in Norway, calculated on a napkin how much Cipramil might earn in the U.S. if it proved as popular as it was in Sweden, where it had a 50% market share. "When Howard saw the numbers, he almost fainted," says Sprunk-Jansen. Solomon was someone he could work with. In early 1996, they signed a deal.

FDA approval came in July, 1998. Then Forest had to persuade doctors to prescribe Celexa. At the time, the company's smallish sales team had a reputation for being reasonably skillful, but they had nothing more rewarding to sell than an inhaler for asthma. Now they were entering, late, the highly competitive market for antidepressants. So Solomon worked out a co-promotion arrangement with Warner-Lambert Co. That lasted all of a year before Warner-Lambert agreed to merge with Pfizer Inc., which sells its own antidepressant, Zoloft. Forest decided to expand on its own, says Elaine Hochberg, senior vice-president for marketing. From November, 1999, to March, 2000, the company added 600 salespeople to its 900-strong force.

Forest's representatives proved to be extremely effective. To start with, they were single-minded: Celexa was the only product most of them sold. And the reps offered Celexa for 20% less than its competitors. There were more prescriptions written for Celexa, 3.3 million, during that first year than for any other antidepressant in its initial 12 months on the market. Celexa's

appeal is not that it is vastly more effective but that it is "well tolerated," says Dr. Bill Carter, a staff psychiatrist at McLean Hospital in Belmont, Mass. In other words, its side effects are minimal. "And that's what the marketing war is all about: tolerability."

When Howard introduced Celexa at a company gathering in San Diego, he recited a passage that Andrew had written describing his illness as a vine choking an oak tree. He says he wanted everybody to "understand what depression looks like and sounds like." Andrew, who attended the meeting without knowing his father would read from his work, says: "Part of the reason Celexa was launched so successfully was that he communicated an enormous passion about the product." Ironically, Andrew has never tried Celexa. He found the right combination of drugs well before Celexa was available in the U.S., and he isn't inclined to tinker with the mix.

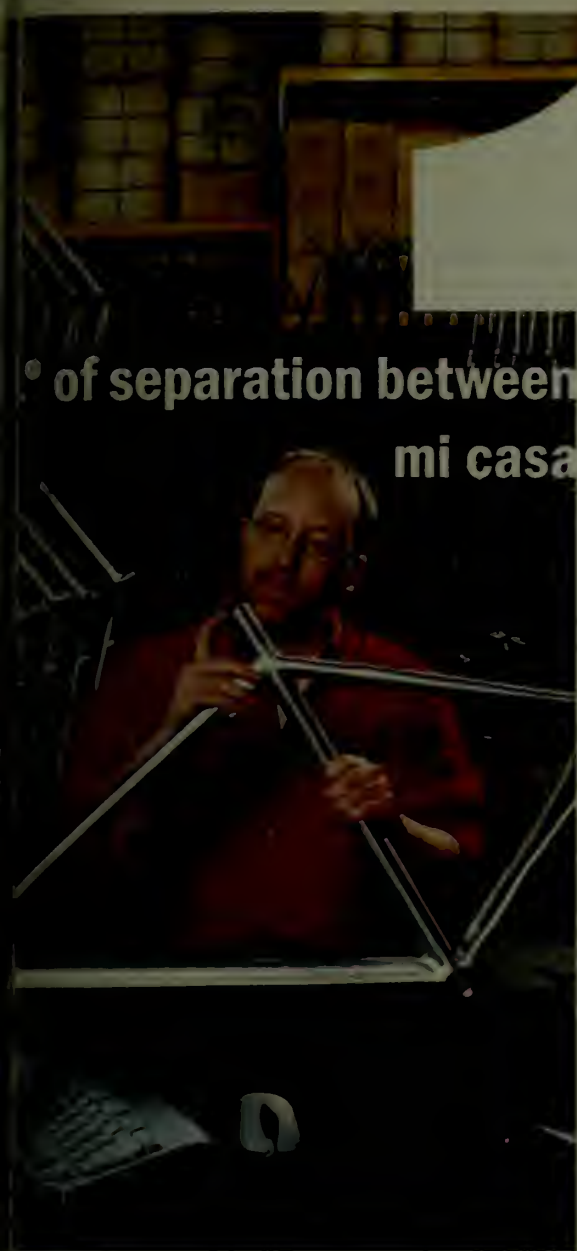
New
prescriptions
issued for
antidepressants
in 2001
47
MILLION

Total retail
sales of all
antidepressants
in 2001
\$12.5
BILLION

Drug therapy hacks through the vines. I can feel it happening, how the medicine seems to be poisoning the parasite so that by bit it withers away...Every morning and night, I look at the pills in my hand. Sometimes they seem like writing in my hand, hieroglyphs saying that the future may be all right and I owe it to myself to live on and see.

Certainly there are some executives who, at that point, would have revealed that the author was their son. Howard simply went on to talk about Celexa's success in Europe. "I don't want to be a bleeding heart," he says. Instead, only a few people at Forest knew about Andrew's illness. And it was only after the presentation that Howard spoke of his son. Sprunk-Jansen, who had come for the launch, said Andrew had begun to see a psychotherapist.

Cover Story



° of separation between
mi casa

and su casa.



When software lets companies collaborate better by linking them closer together, that's business with .NET. Making seamless connections with your business partners helps you team up in new and powerful ways. .NET connected software from Microsoft links your systems with those of outside companies, regardless of existing platforms or programming languages. So now, data and ideas flow freely between organizations, which allows for unprecedented collaboration and opens the door to new partnership opportunities. That's one degree of separation. That's business with .NET. Find out how .NET connected software can help you forge closer connections with your partners. Go to microsoft.com/enterprise **Software for the Agile Business.**

Dollar Rent A Car wanted to let potential partners directly access its mainframe-based reservation system via the Internet. Using .NET connected software from Microsoft, they built an interface application that has already produced thousands of new reservations and millions of dollars in additional revenue.

Microsoft®

© Microsoft Corporation. All rights reserved. Microsoft is a registered trademark of Microsoft Corporation in the United States and/or other countries. The names of companies and products mentioned herein may be the trademarks of their respective owners.



ANDREW SOLOMON

BORN Oct. 30, 1963, New York.

EDUCATION BA in English, Yale University, 1985; JD BA-MA in English, Cambridge University, 1987.

VOCATION Author.

BEST-KNOWN WORK *The Noonday Demon: An Atlas of Depression*, which won the 2001 National Book Award for nonfiction. The book chronicles his struggles with depression beginning in 1994 and explores the disease from historical, political, and economic perspectives.

REVELATIONS Solomon writes about his mother's suicide in 1991 after her cancer was deemed incurable.

ON HIS FATHER Andrew lived with his father for several months during his breakdown. "We spent an awful lot of time together... In the beginning I cried a lot. But as I was coming out of it, we talked about what one lives for and what it means to be alive, what we did during my mother's illness and death. It was more authentic."

FAMILY Single.

the summer after his mother died to cope with his loss. Over the next three years, grief and anxiety turned to numbness, then to dread. Andrew, voicing a common concern, asked if he was going to end up on antidepressants; his therapist said that avoiding medication was courageous. But just before Andrew's thirty-first birthday, he "went to pieces," as he says. It was then that he met with a psychopharmacologist who prescribed Xanax

Cover Story

for anxiety and Zoloft for depression (Andrew soon switched to Paxil). It took weeks for the terror to lift, and many more months before Andrew felt himself again. Now, Howard believes Andrew should have taken antidepressants much sooner. "Even in an educated family like ours there was a lot of fumbling around," he says.

Howard remains distinctly uncomfortable discussing his care of Andrew in anything other than the most general of terms. What he will say is this: "The important thing for the caregiver is to keep communicating that the person will get better. It's hard for patients to believe they can be cured. Part of the disease is fear. Virginia Woolf would not have committed suicide if antidepressants had been available."

Even so, worries of suicide hovered over the Solomon family. Andrew describes his father's approach this way: "He constantly played a double card. 'I love you very much, and you're surrounded by people who love you, and if you feel better you'll find that you'll have a wonderful life.' Then he played the guilt card: 'If you did anything, it would ruin my life.'"

By Andrew's account, his father pretty much canceled all his plans for several months so that Andrew wouldn't be alone. When Andrew was up to a night out, they went to the opera. During intermission, Andrew asked his father to accompany him to California, where he was

scheduled to talk about his first novel, *A Stone Boat*, which had been published in October, 1994. Andrew was worried he might not make it through the tour on his own, but he didn't want to cancel it. Howard agreed to join him. "It was embarrassing to have sunk into such infantile dependence," Andrew. "But I just remember having the feeling that I will take care of everything." Andrew dedicated *The Noonday Demon* to his father, "who gave me life not once, but twice." Andrew recovered by late 1995, and wrote that for Howard it was "a triumph of his love and of intelligence and will. He had tried to save one member of the family and failed, but he was able to save another."

Medication can alleviate the symptoms of depression, but it doesn't extinguish the disease. Andrew has since suffered two less severe breakdowns, the last in 1999. Today he is comfortably settled in a Manhattan townhouse, serves on the advisory board of the National Mental Health Awareness Campaign, and is writing a book on parent-child relations. Andrew continues to see a therapist and takes five different drugs. When Andrew talks about those times, he says, "Before I got depressed, my father and I had an affectionate but somewhat contentious relationship. Now it's almost embarrassing how close we get along." They talk on the phone several times a day. Andrew's brother is also close. David returned from Los Angeles, where he was an independent film producer, to join Forest as its director of licensing in March, 2001.

Money spent to
advertise the
five leading
antidepressants
last year

**\$160
MILLION**

Money spent to
advertise
Mercedes-Benz
last year

**\$135
MILLION**

Most people cannot emerge from real, serious depression just by fighting; a real serious depression has to be treated, and it has to pass. But while you are being treated, you have to keep up the fighting.

Forest was once the kind of company you had to go knocking on doors for new p



The new Aetna:

America has the greatest medicine in the world. And Aetna is working with physicians to make it easier for our members to benefit from it. We've created new plans, including some that eliminate doctor

Turning promise

referrals and many pre-certification requirements. It's just one example of how innovative thinking makes life easier for your employees. And how we're fulfilling the promise of the new Aetna.

into practice.



Turning Promise into Practice

Health • Dental • Disability • Life • Long-Term Care

ucts. But its dogged promotion of Celexa has not gone unnoticed by other European companies; these days Solomon often gets first dibs on those compounds he thinks have a good chance of being approved in the U.S. Forest's strategy has been to focus on treatments for diseases that are initially diagnosed by general practitioners. For instance, Charles Triano, Forest's vice-president for investor relations, says the company expects to launch lercanidipine for hypertension (developed by Italy's Recordati) early next year. And in October, Forest won the U.S. marketing rights to acamprosate, a drug for the treatment of alcohol addiction that was discovered by Lipha, a subsidiary of the German company Merck. Lipha filed a new drug application in late February, and the FDA has promised an expedited review. "They did a spectacular job of building a portfolio in a very short time,"

says Corey Davis, a specialty pharmaceuticals analyst at J.P. Morgan H&Q. "They could not spend their money fast enough."

But like every other pharmaceutical executive, Solomon has to contend with the fact that his main product will go generic one day—in this case, in early 2005. Well before then, and perhaps as soon as June, Forest hopes to get the next generation of Celexa, called Lexapro, on the market. The company is now waiting to receive

final FDA approval. Some analysts believe Lexapro, which Forest says is more pure and powerful than the original, could be a \$2 billion-a-year drug in the next five years.

Two potential problems could undercut Forest's promise, though executives there prefer to talk about only one. What they will acknowledge is that to keep growing, Forest will have to license drugs in earlier stages of development. The advantage is that the company can initially make a smaller investment and have more say in the process. But in those cases, the already intricate approval procedure becomes even more uncertain. "There is clearly a risk-reward scale," says Triano. "So far we are skewed to late-stage development. But we're looking to slide the scale." Some of the responsibility for that will fall to Solomon's likely successor, Kenneth E. Goodman, 54, who now serves as president and chief operating officer.

What executives at Forest won't readily discuss is the matter of cannibalization—the reality that new drugs, such as Lexapro, usually eat into the sales of their precursors. One



“The opposite of depression is not happiness but vitality, and my life, as I write this, is vital, even when sad”

way Forest hopes to differentiate Lexapro from Celexa is by seeking the FDA's approval to sell Lexapro as a treatment for anxiety and panic disorder as well as depression.

Trying to extend a drug's use is common enough: Paxil is already prescribed for social anxiety, obsessive-compulsive disorder, and depression. The tactic is without controversy, though. In this instance, critics say that drug companies are aiming far beyond the small group of people whose shyne incapacitating to who may feel a bit what awkward in public. For such temporary unease, drugs may be appropriate. "People deserve to feel better. But they are resistant to drugs to deal with the problems of life," says Dr. Sidney V. Head of Public Citizen Health Research Group. Indeed, some contend that medication for depression is not as powerful as people believe. Two recent studies conclude in the short term

antidepressants can work as well as antidepressants.

Solomon's appreciation of how debilitating depression can be and Forest's growing resources led him to make two important changes in the workplace. The company introduced a comprehensive Employee Assistance Program. And it began providing the same amount of health insurance for mental illness as for other maladies. This may seem like it should be standard practice, but it is a contentious matter. Companies trying to contain health-care costs argue that mental illness can't be controlled as effectively as, say, heart disease and therefore shouldn't be covered the same way. In April, President Bush called on Congress to pass a bill that would prevent companies from setting limits on mental health insurance.

Solomon considered offering free antidepressants to those who needed them after September 11 but decided against it. While Andrew is enthusiastic about the drugs' efficacy, he wrote candidly of their peril: "Taking the pills is costly—not only financially but also psychically...It is toxic to know that without these perpetual interventions you are not yourself; you have understood yourself."

What Howard tells his son, and all those who suffer from depression, is that there is nothing to be ashamed of. Indeed, both speak of what they have gained. Andrew's despair could have brought his family even greater misery had he not emerged from it in as fine form as he did. Instead, the experience transformed him, his father, and Forest. Their story of hope, perhaps not rare, but certainly remarkable.

Cover Story

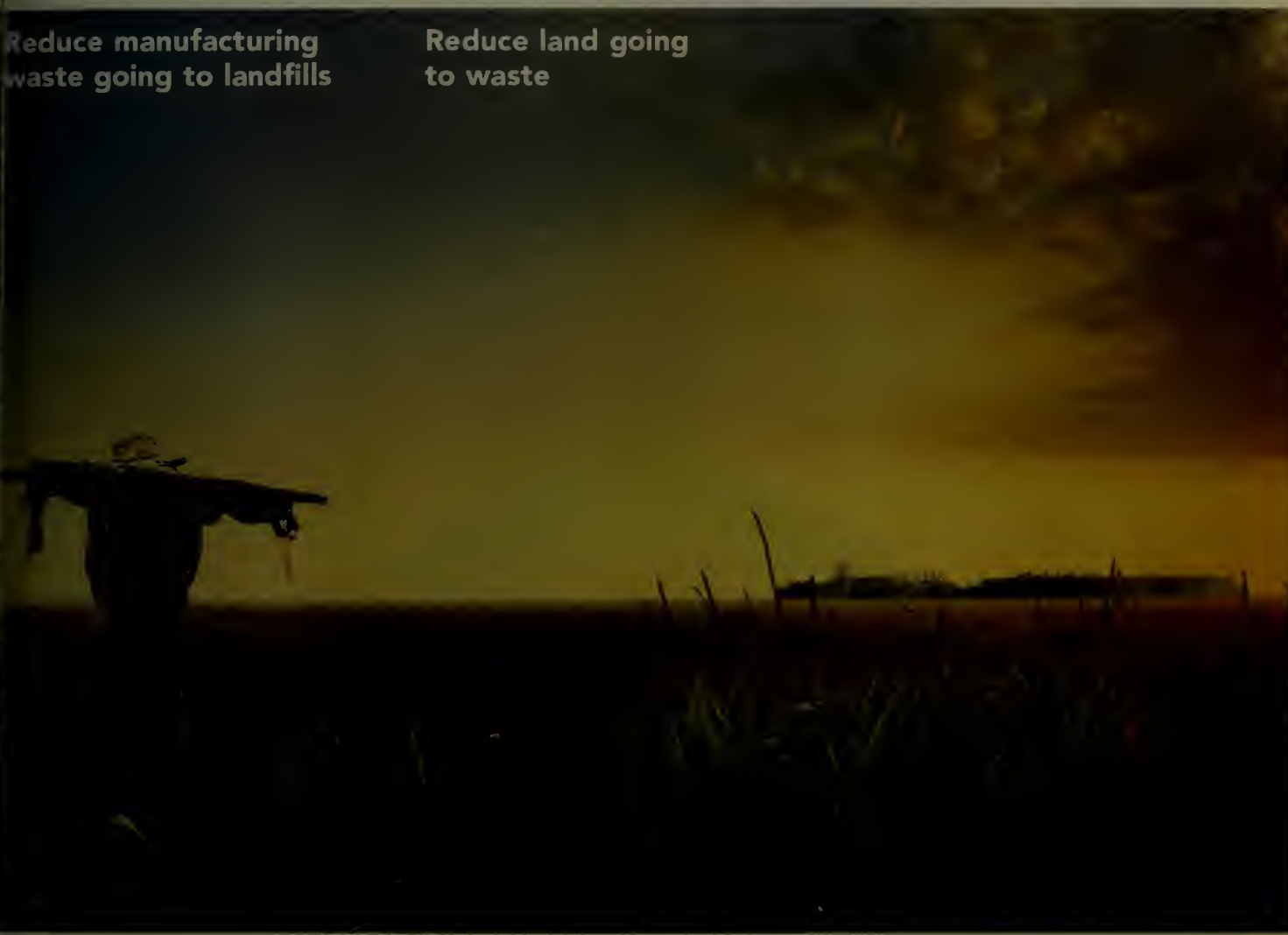
TODAY

Reduce manufacturing
waste going to landfills

TOMORROW

Reduce land going
to waste

TOYOTA



Each year Toyota builds more than one million vehicles in North America. This means that we use a lot of resources — steel, aluminum, and plastics, for instance. But at Toyota, large scale manufacturing doesn't mean large scale waste.

In 1992 we introduced our Global Earth Charter to promote environmental responsibility throughout our operations. And in North America it is already reaping significant benefits. We recycle 376 million pounds of steel annually, and aggressive recycling programs keep 18 million pounds of other scrap materials from landfills.

Of course, no one ever said that looking after the Earth's resources is easy. But as we continue to strive for greener ways to do business, there's one thing we're definitely not wasting. And that's time.

www.toyota.com/tomorrow

ENTREPRENEURS

VCs TURN THE SCREWS

Today's venture capitalists are demanding onerous terms. That could hurt both innovation and investors

VIEWWRITER

Richard LaPierre is a frustrated man. His startup, ViewWriter Technologies Inc. in Waltham, Mass., is a rare bird these days—a two-year-old company that boasts a working product, a patented technology, and customers, including the U.S. government. Yet LaPierre is having trouble nailing down venture financing for ViewWriter, which markets a multimedia training tool.

It's not that venture capitalists aren't interested. It's just that they'll only write a check if LaPierre agrees to terms so onerous that he and his team would get scant compensation for all the work they've put into building a business from scratch. Not only would they end up with less than 50% ownership of ViewWriter, there would be little likelihood of a big payday unless the company achieved all but impossible growth targets. "I'd close

it down before accepting that," says LaPierre, who is also seeking funding from corporate investors. "[VCs] lost all their money on the dot-coms, and this is how they're trying to make it back."

It's the latest brutal twist of trickle-down economics. VCs are under intense pressure from their own investors to improve their dismal performance, slash fees, and return uncommitted funds to investors. Venture-capital investing has always had manic swings, and right now, it's on a downer that's the worst on record. Year-over-year fund returns have fallen to -32.4%, according to researcher Venture Economics. In response, VCs—supposedly some of the biggest risk-takers in the investment

NO, THANKS

LaPierre's ViewWriter has a patent and customers. The deal VCs are offering would leave him with less than 50% of his company

business—are acting like Chicken Little. To prove their chances of payoff, they're putting screws to entrepreneurs, their teams, and VCs. Talks have been so long and tortuous that the legal costs for venture financing have

bled. "There is a frenzy of extraordinarily draconian terms going on now," says Craig Johnson, a lawyer with the Venture Law Group who represents startups.

That's particularly the case with the hardest-pressed venture-capital funds, many of them relative newcomers to the business. The most distressed are inking deals that, in the event of a sale, ensure returns of up to five times their investment before anyone else

"The last investor in, with the smallest amount of money"

dime, including management. Just two years ago, standard practice was for VCs to simply get back what they put in before proceeds were divvied up. Another new term promises venture funding only when startups meet certain milestones, such as acquisition of customers or revenue targets. Two years ago, funding was handed out up front in one lump payment.

Industry experts say VCs are hurting only themselves. Instead of pumping up returns, their behavior is likely to create resentment, a swath of bankruptcies, and a further shakeout within the venture community. After all, say entrepreneurs, why stick around if they're going to be treated only like employees of venture funds? What if the talent becomes so resentful that they walk mid-project, leaving VCs with nothing?

Worse, these industry experts fear this shortsightedness will keep many talented entrepreneurs and executives on the sidelines, crippling the quality of startups. "What's happening in the marketplace stifles innovation and leads to underinvestment," says Raphael Amit, a professor of entrepreneurship at the University of Pennsylvania's Wharton School. "VCs feel they need to guarantee themselves that, no matter what, they will make money. But they only make money if startup teams accented to do the right things."

Reasoned VCs say the turmoil is just the business responds to a tough economy. They say the Internet frenzy of startups unrealistic expectations attracted an influx of both inexperienced venture investors and fly-by-night entrepreneurs. Now that the pendulum swung back, marginal players will be weeded out. "The business has a certain ebb and flow to it," says Jonathan Silver, founder of Core Capital Partners, a venture firm in Washington. "I know when we're where we ought to be when the investor and entrepreneur believe, at the end of a negotiation that we have achieved a win-win situation. We aren't there yet."

Just how far off the industry is from optimal place is clear by looking at today's harsh terms have turned traditional venture-capital process

A NEW ERA

VCs used to love risk. Not anymore. Terms have gotten tougher across the board. Here's a sample of how venture-capital deals have changed since the bubble burst:

THEN	NOW
■ VCs valued startups at \$15 million to \$100 million.	■ Startups get valued at only \$3 million to \$10 million.
■ VCs typically put \$5 million to \$30 million into a company per investment round.	■ Startups get \$2 million to \$10 million.
■ Young companies got all the money in a lump sum when a venture deal closed.	■ VCs dole it out when a company has met certain milestones, such as revenue targets.
■ When a company was sold, VCs got their full investment back before anyone else got paid.	■ VCs want three or more times their money back before anyone else sees a payout.
■ Founders had to wait four years to cash out entirely.	■ Founders have to wait five years.

Data: Fenwick & West LLP

on its ear. Typically, the first VCs to back a startup get stock at a very low price, since they're taking the greatest risk. Subsequent investors pay more because the company is making progress, which increases its value.

Now, with valuations plummeting, tough-minded investors are buying in at prices substantially below those paid by initial investors. That dilutes the stakes of earlier investors. Angel Investors LP, for instance, a small, early-stage venture firm in Silicon Valley that will not be raising another fund, says it has lost some \$8 million invested in seed-funding rounds because so-called later-stage VCs took so much stock at such low prices that their positions were washed out. "The state of affairs is so ugly that the last investor in, with the smallest amount of money, can now get the biggest share of a company, without

regard to prior investments," says Ronald C. Conway, founding general partner of Angel Investors.

The trend is widespread. Even Mike Homer, a veteran of Apple Computer Inc. and Netscape Communications Corp., says he saw antidilution protections for the first time in his last round of funding in August for Kontiki Inc., which develops software and services for distributing audio and video over the Internet. Homer's investors, which include Benchmark Capital and Barksdale Group, got a virtual guarantee that they'll maintain the same ownership stakes even if Kontiki takes subsequent investors in at lower prices. "VCs have all the cards now," he says.

That's why some top entrepreneurs are staying on the sidelines. Mark Pincus, who founded software startup Support.com as well as another successful company, says he wants to get back in the game. But the current financing environment, coupled with the down economy, make it likely he'll make that move later rather than sooner. Pincus concedes that his negative attitude means missed opportunities—for himself and investors alike. "Three years from now, I know we'll see categories that I should have been betting on," he says.

Of course, the most successful entrepreneurs and most compelling ideas aren't wanting for money. Apple Computer co-founder Steve Wozniak, a superstar when it comes to founding companies, raised \$6 million in January for his new wireless startup with not much more than a single breakfast meeting.

Likewise, some top-tier VCs have tweaked terms to reflect the new realities, but they haven't taken the extreme positions the newer VCs have. "Firms that think they'll make money by cramming onerous terms down entrepreneurs' throats will not be successful long term," says Magdalena Yesil, a partner at U.S. Venture Partners.

Today's unpleasantness isn't likely to change soon. So some entrepreneurs say their colleagues need to toughen up. "When I hear people bellyaching about VCs, I say, 'Hey guys, welcome to the real world,'" says Mark Gainey, co-founder of software maker KANA Inc., which got its financing in pre-bubble 1997. "They should be thrilled just to get something done." These days, there aren't many alternatives.

By Linda Himelstein in San Mateo, Calif.

get the biggest share," says a VC who's bowing out of the biz

STOCKS

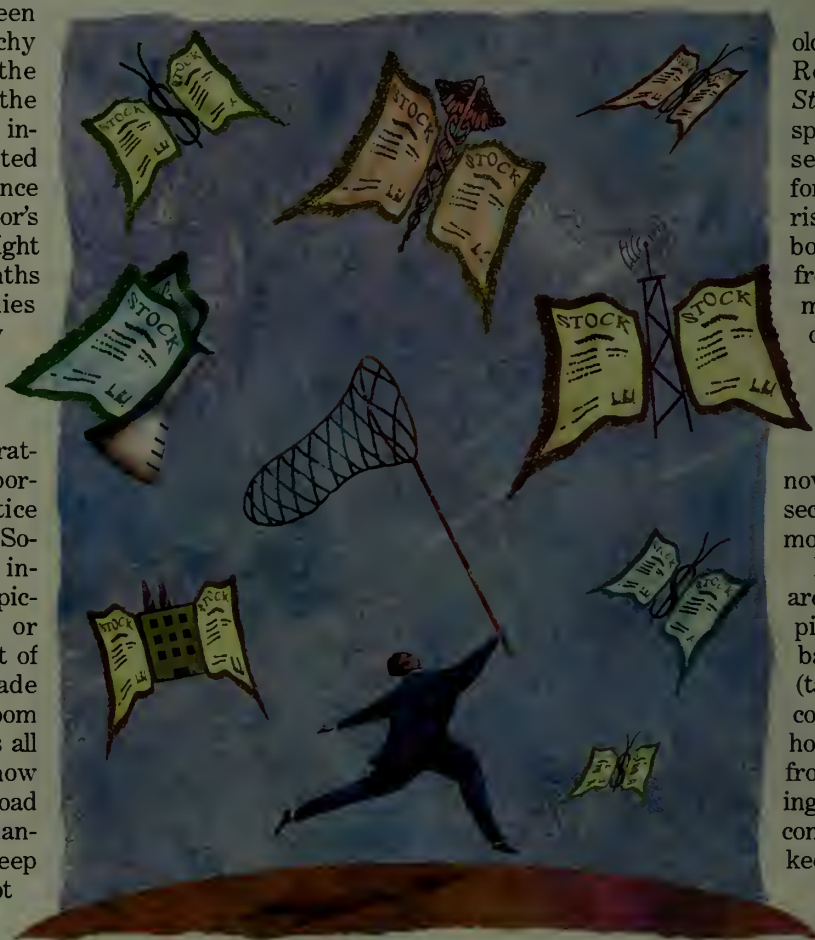
GET IN, GET OUT, AND MOVE ON

Sector traders grab a hot industry, and don't sweat the details

The stock market has been acting a lot like a scratchy old record: stuck in the same groove and playing the same tune. The Dow Jones industrial average has oscillated between 9,500 and 10,500 since late fall. The Standard & Poor's 500-stock index, at 1,100, is right back where it was six months ago. Even spectacular rallies that send the tech-heavy Nasdaq sky-high now and again eventually peter out.

The lack of clear direction in the markets may be frustrating to many, but it's an opportunity for those who practice the art of "sector rotation." So-called top-down, or sector investing, keys in on the big picture—economic, political, or industry-specific. It's the sort of thematic strategy that made tech and Internet stocks zoom when the New Economy was all the rage. The search is on now for new themes. "Without broad market leadership, money managers have been forced to keep moving money around and not get stuck in one place," says Price Headley, chief executive of BigTrends.com, a Lexington (Ky.) financial-research firm.

Many of these investors aren't waiting for a revival of corporate profits or merger mania. Instead, they are seizing on mini-trends and riding the momentum. They don't know why certain stocks take off—and they don't care either. "By the time you figured out why the stocks are moving, it's over," says Lester Shipman of Complexity Capital Management. Shipman runs a numbers-driven hedge fund that shifts sometimes weekly among stock groups, such as jewelry companies or chemical stocks.



Some money managers build complex charting systems and computer models to point the way, but sector-hopping isn't an exact science. And since concentrating rather than diversifying holdings puts sector players at extra risk,

the most successful traders themselves full-time to the pursuit.

Amateurs, however, would be advised to steer clear of quick profits. Sector rotation can run up trading costs. Even if you do well, the short-term nature of the trades means profits are realized at high rates. "If you look back at some of the great investors making money, it was buying and holding like this," says Russell Kinnel, chief of fund analysis at Morningstar.

Indeed, sector trading was old as the economic cycle. Rowland, editor of *Star Funds* newsletter, specialized in rotation for more than a decade. The riskiest fund—in which he bounces 100% of the portfolio from one of Fidelity's 42 sector funds to another—has earned an average of 22.5% a year since 1993, according to *Investment* newsletter tracker. Now, that fund has no sector: The cash is stashed in a money-market portfolio.

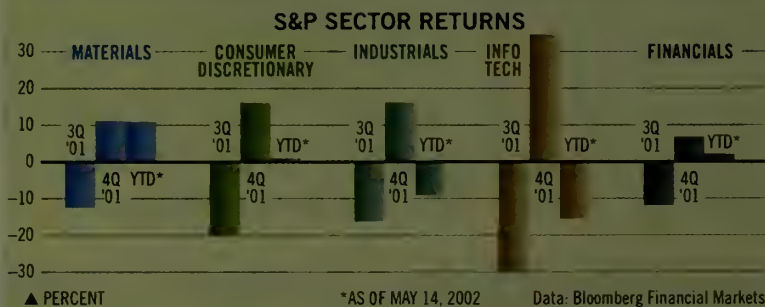
But other sector strategies are in the market. Many have pinned their best hopes on basic materials and financials (table). They're also betting on consumer goods, retail, homebuilders, which were helped by strong consumer spending and low interest rates. In comparison, most are not keen on telecom, health care, and utilities, because of limited growth or regulatory power. Some, like Headley, are "playing the downside" by buying gold. He's also got a big stake in the Rydex Venture Fund, a fund that sells short the tech-heavy Nasdaq.

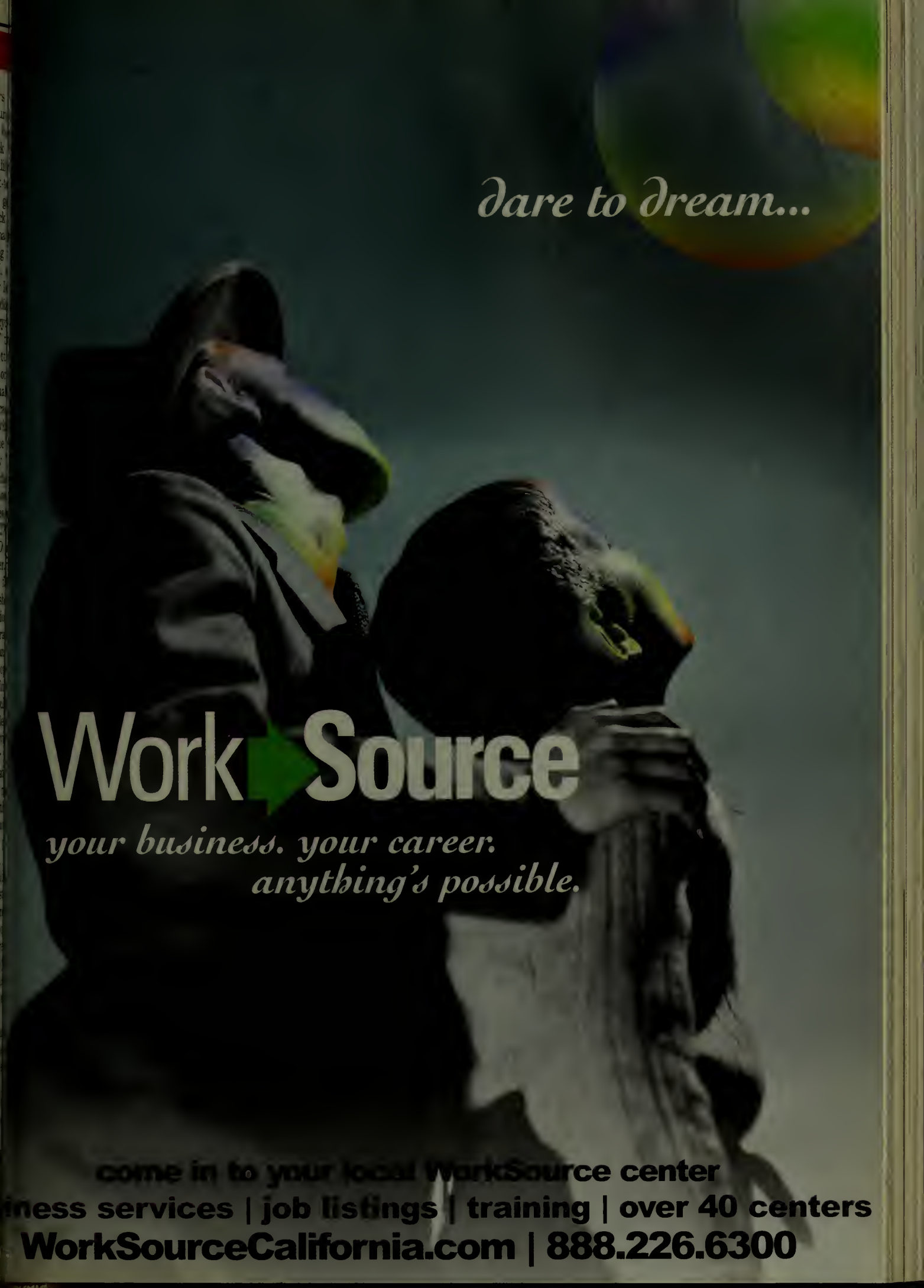
Broad sector calls can change in a dime. Expectations for a speedy economic recovery this last year sent sector investors into cyclical stocks, which tend to show big early gains in the economic cycle. By late summer, hopes had been dashed. Then came September 11. Airlines and leisure stocks were hammered. The tech sector looked worse than ever. Defense and security stocks took flight.

Three months later

BOUNCING BETS

With no clear market trend to ride, investors are jumping from sector to sector





dare to dream...

Work Source

*your business. your career.
anything's possible.*

come in to your local WorkSource center
business services | job listings | training | over 40 centers
WorkSourceCalifornia.com | 888.226.6300

was a whole new world. Strategists began to forecast higher interest rates as the economic outlook brightened again, prompting a sell-off of utility and bank stocks. Airline stocks recovered from their 50% third-quarter drop with gains of 30% since. Now, the buy-and-sell cycles seem even more compressed: A month ago retail stocks were on a roll, while supermarket stocks were in the tank. Today, the reverse is true.

This strategy doesn't require a ton of company research. In fact, traders buy a basket of stocks representing the entire sector without regard for individual companies. Even laggard stocks can soar when they're swept up in the feeding frenzy. "The nice thing about investing at the industry level is that all the stocks should be doing about the same thing at the same time," says Mike Byrum, chief investment officer of Rockville (Md.) Rydex Funds, which manages \$5.5 billion. "Which stocks you buy isn't particularly important."

Byrum's fund company runs 18 sector funds and caters to investors who want to jump from sector to sector. For those who would like to but don't know how, Rydex launched its Sector Rotation Fund on Mar. 22. The team-managed fund is buying consumer durables and industrial materials—Pulte Homes Inc. and Lafarge North American Inc.—and has a contrarian bet on some healthcare stocks, such as Cardinal Health Inc.

Money managers focused on a single sector are playing the rotation game, too. Anton V. Schutz, portfolio manager for the \$50 million Burnham Financial Services Fund, has had lots of turnover in his portfolio in the past year. "It's my job to find the best stocks," he says. "Let [our] investors' accountants take care of the tax consequences." So far, the churning has paid off: The average financial-services fund gained 3% in the past 12 months, and Schutz's fund is up 28%. After September 11, he shifted quickly into interest-sensitive companies, such as savings and loans and community banks—Golden State, Sovereign Bank, and Washington Mutual. Three months later, he swung wholeheartedly into brokerages, which looked healthier as recession fears waned. The Wall Street analyst scandal hit before he could get out, but he's still up 15% this year.

For those who simply live to trade, jumping from sector to sector is about the only stock market game in town. It looks easy, but only in retrospect: All you have to do is buy what will go up and sell before it goes down.

By Mara Der Hovanesian
in New York

INVESTING

FOLIO_{fn} JOINS THE FAMILY

Can mutual-fund managers sell those baskets of stocks?

Two years ago, Steven M.H. Wallman launched a frontal assault on the \$7 trillion mutual-fund industry. His weapon: "folios," customized baskets of up to 50 stocks that investors could buy in one transaction from his online brokerage, Folio_{fn} Inc. Wallman figured his brainchild would give the diversification of a fund, but with lower costs and more freedom to manage taxes.

But in the face

HOW FOLIOS WORK

WHAT ARE FOLIOS?

Baskets of up to 50 stocks that investors can buy and customize.

WHERE ARE THEY SOLD?

Folio_{fn} first sold them directly to do-it-yourself investors. Now, they're sold through investment advisers, money managers, and mutual-fund companies.

WHAT'S THE ADVANTAGE OVER A MUTUAL FUND?

A folio is a basket of stocks that fund managers can create readily. Investors own the individual stocks directly, so they can manage the holdings to minimize taxes.

Data: BusinessWeek

of the bear market, few individuals took to the idea. Now, the pioneer of the anti-fund hopes to make his comeback—in partnership with the fund industry. It has been a wrenching adjustment for Wallman. But if he succeeds in slashing the cost of customized money management—which some fund companies bet he can—the move could be a winner for Wallman and his fund foes alike.

These days, new money comes into the market mainly via funds or financial advisers. So Wallman is repositioning Fo-

lio_{fn} to catch that cash. He has one deal: Brinker Capital Holdings—King of Prussia (Pa.) investment giant overseeing \$3 billion, will create managed by its 60 independent funds, which it expects will reap \$300 million over the next year. Brinker will pay between 1.5% and 2.25% of assets to big fund houses—American Century Investments, Navellier & Associates, one that Folio_{fn} won't name—a company exploring offering folios for clients.

Such deals could put Folio_{fn}, based in Vienna, Va., in what Wallman calls a "sweet spot of financial services"—retail managed accounts. These accounts let investors split their portfolios among managers with different investment styles—growth, small-cap, and so forth—for one fee, ranging from 0.5% to 3% of assets.

WALLMAN: Aiming to slash the cost of customized folios by managing



mutual funds and rate accounts. Investors manage holdings to minimize taxes. But that flexibility poses huge business challenges—which only get worse if separate

accounts keep up their 20% annual growth.

Wallman and his potential partners think folios can be the answer. The firm's technology lets a manager create a model folio and simultaneously trade stocks in a huge number of accounts while letting investors block unwanted stocks or trades that raise their taxes. Says Navellier managing director Knapp: "Folios are going to be the dominant technology for financial advisers—whether it's Folio_{fn} or something very much like them."

That's a key qualification. Folio_{fn} had rocky times. Last October, Wallman cut the firm's staff from 200 to about 100. After September 11, "we had to raise costs," Wallman says, especially in areas as his ambitious investor-education Web site. The firm still isn't profitable, but the founder says venture capitalists keep offering him capital, which his shrunken company doesn't need now.

Folios may never revolutionize investing as much as Wallman hoped. Fund executives may gloat to see the vociferous critic joining their ranks. Either way, Wallman figures investors will pay less for a more diverse portfolio and that's a plus.

By Mike McNamee in Vienna

Not all summer blockbusters come from Hollywood.

Soon to be released: our summer double issue – Ideas That Make a Difference.

On sale for two weeks, it's brimming with visionary thinking that's sure to have an impact on those who shape the course of business. To reach them in print or through

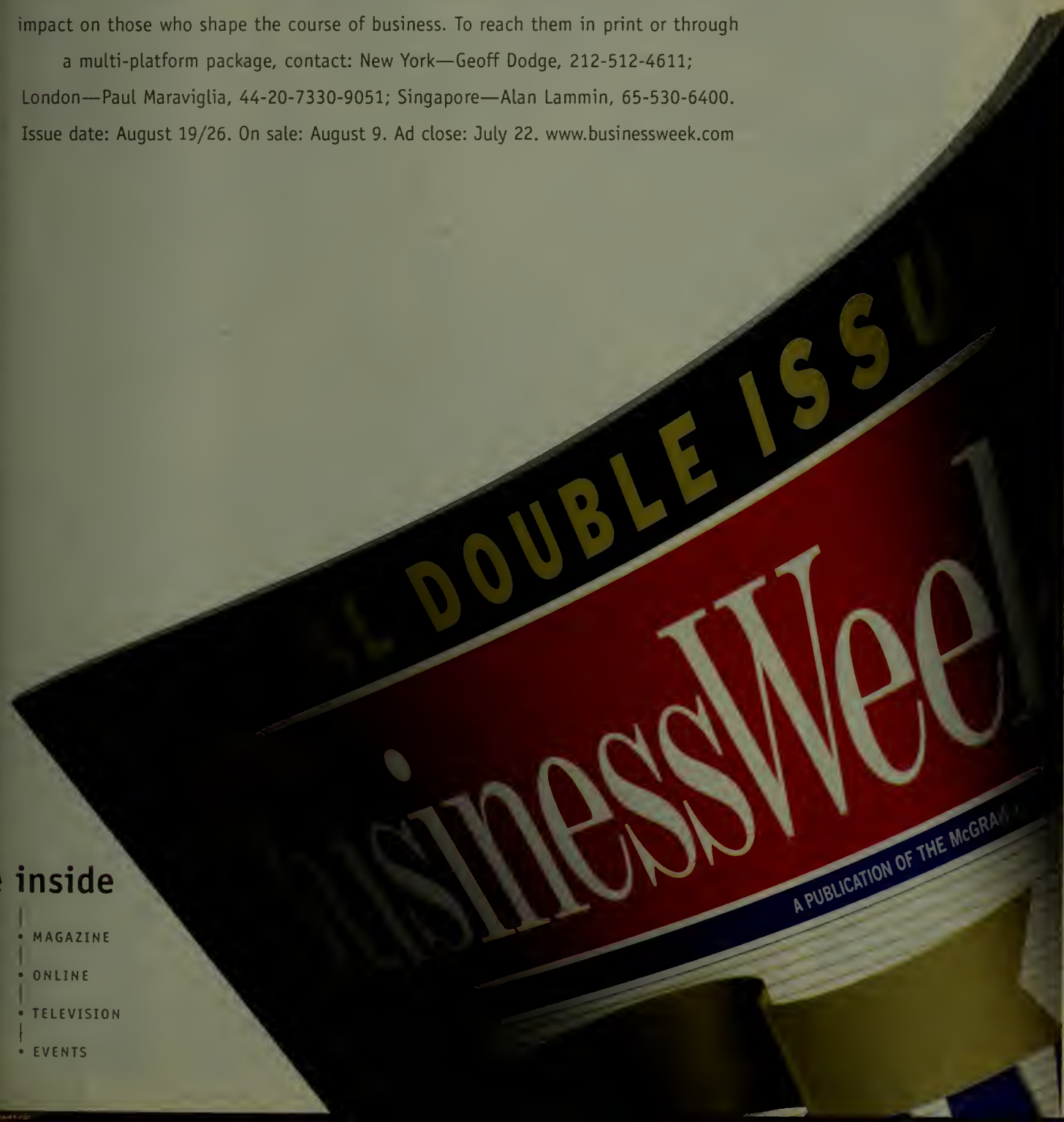
a multi-platform package, contact: New York—Geoff Dodge, 212-512-4611;

London—Paul Maraviglia, 44-20-7330-9051; Singapore—Alan Lammin, 65-530-6400.

Issue date: August 19/26. On sale: August 9. Ad close: July 22. www.businessweek.com

Inside

- MAGAZINE
- ONLINE
- TELEVISION
- EVENTS



A DAVID SURROUNDED BY GOLIATHS

With the likes of IBM looming, server pioneer BEA is scrambling to roll out new products

For years, BEA Systems Inc. climbed so high and so fast it should have suffered from altitude sickness. The company pioneered the hottest of hot Internet software markets: so-called Web application servers for running key business and e-commerce programs. Fueled by e-business mania, the company's sales doubled every year. In February, 2000, the good times peaked as BEA's stock hit \$73, giving the upstart a mind-bending price-to-earnings ratio of 751. Even competitors were in awe. Edward J. Zander, president of rival Sun Microsystems Inc., wondered last summer if BEA was destined to become the "next great" software company.

Now investors are wondering if BEA can climb out of a jam. The company carved out a marketplace that has proven so crucial to computing that technology titans IBM and Microsoft have piled in. The Web application server is the traffic cop for the Internet, creating and posting Web pages on the fly and handling transactions for the busiest Web sites and run-the-

business applications. To grab a piece of the action, IBM is selling its Web-application server for 10% to 20% less than BEA, and Microsoft is including it free in its Windows server operating system. "We won the early fight," says BEA Chairman William T. Coleman III. "The booby prize was we got to compete with the giants."

And they're taking their toll. When BEA reported financial results for the third fiscal quarter ended Apr. 30, it was its third disappointing quarter. Revenues were \$224.8 million, down 13% from a year ago. Net income was \$3.9 million, an 81% drop. For the full year, analysts expect revenues will be flat at \$976 million. And BEA's stock is in the dumps: At \$11, it's off 74% from a 52-week high of \$42.75. The current price-earnings ratio? A more down-to-earth 38.

Things aren't likely to get better anytime soon. Even though analysts expect BEA's revenues to grow by nearly 20% in fiscal 2004, AMR Research Inc. says IBM will take the lead in the application-server market this year. Big Blue's share of the market is expected to jump 5%, to 31%, while BEA's share will dip about a percentage point, to 26%. The

reason: IBM now has technology nearly as good as BEA's and less expensive. "I'm attacking the competition head-on," says Steve Mills, senior vice president, IBM Software Group.

Fortunately for BEA, its executives saw this coming nearly two years ago. Back then, co-founders Coleman and Fred S. Chuang, now the CEO, saw the wheels in motion for a series of new products, just now hitting the market that are designed to broaden BEA's reach beyond Web application servers and into its technology edge. Last year, the company added corporate Web-portals software to its portfolio. Last month, it brought an upgrade of its application server, keeping it a step ahead of competition. And later this year, it plans on diversifying into security and computer system-management software.

Coleman and Chuang's vision remains a vital player by delivering Web servers and related products that bridge any operating system and software application. As a neutral middleman, BEA helps customers avoid being locked into technology

CAN BEA SYSTEMS GROW UP?

The seven-year-old Internet company pioneered software that corporations use to build run-the-business Web applications. Now it faces challenges on all sides.

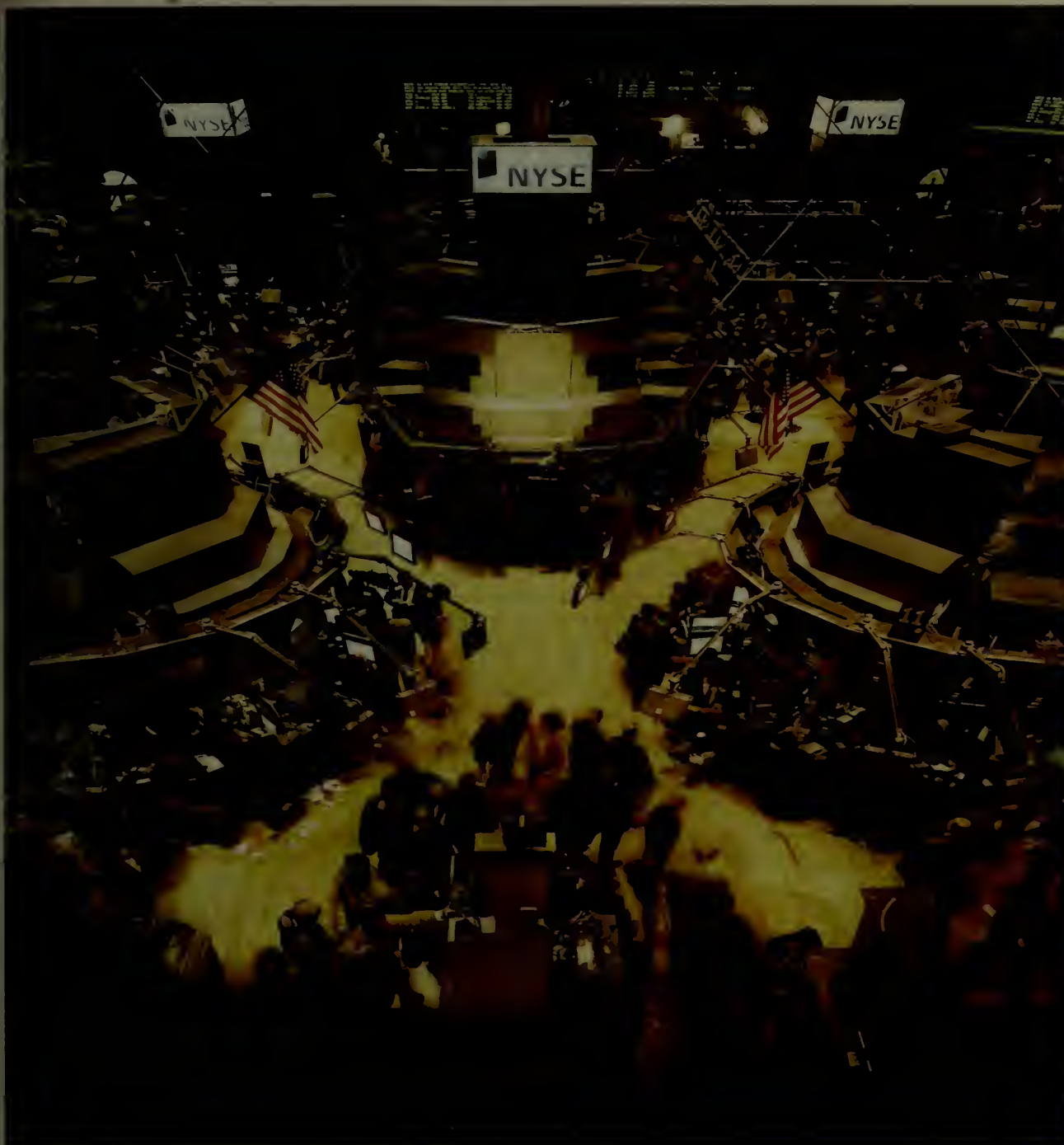
ONE-PRODUCT COMPANY Two years ago, BEA's flagship WebLogic application server accounted for 70% of total software revenues. Now BEA is diversifying into new markets such as security and corporate Web portals.

ENDANGERED MARKET LEADERSHIP Analysts project IBM will become the market share leader this year, with 31% to BEA's 26%. To head that off, BEA released an upgrade of its application server that analysts say keeps its technology out front.

SHORTAGE OF PARTNERSHIPS Early on, BEA didn't pursue partnerships with large tech companies. That's changing. Its software now comes bundled with applications from enterprise software players PeopleSoft and Manugistics.

CEO
CHUANG

CHAIRMAN
COLEMAN



When nearly half of the Fortune® 1000
count on you, a pattern starts to emerge.

Leading businesses need a wireless partner to keep things moving, they turn to us. That's why we've
been named as the number one wireless carrier for business data users. With Cingular, you get everything from
cellular calling plans and corporate email to interactive messaging and CRM solutions—all built around your
company's specific needs and goals. Maybe it's time you noticed the shape business is taking to express
your vision. To see how we can build a wireless solution around you, give us a call at 1-866-446-7599 or visit us
at www.cingular/business.com. Also, feel free to download our "orange" paper, *Executive Guide to
Enterprise-Wide Wireless Data Strategies*, when you visit our website.

 **cingular**SM
WIRELESS

What do you have to say?™

from major tech players such as IBM and Microsoft.

But, unless BEA comes up with another software success, it won't regain its supernova status and could wind up as an unspectacular member of the corporate software club. That would be a jarring reversal. The seven-year-old company sputtered in its early years. But it found its stride in 1998 with the acquisition of WebLogic Inc., which made Web-application servers. Within three years, BEA's revenues nearly tripled, to \$819 million, thanks to WebLogic.

It's no surprise that other tech companies took notice. IBM sees application servers as the entrée to a grand strategy of selling consulting services and other types of software like databases and security systems. Compared to IBM, BEA looks downright Lilliputian. Big Blue has 8,000 engineers working on its WebSphere application server products, compared to just 700 engineers at BEA. IBM can discount big because it sells so many different pieces of hardware, software, and services—and typically makes its profits in services.

Over the long haul, Microsoft may turn out to be an even more daunting competitor for BEA. Although BEA's products are considered vastly superior to Microsoft's now, the software giant has a history of making gradual improvements and finally trouncing competitors such as networking software rival Novell Inc.

To escape the heavy feet of Microsoft and IBM, BEA has been pouring resources into technology. Last quarter, it spent \$29.9 million on research and development. That's 13% of revenues, up from 10% a year earlier.

BEA is also trying to rekindle growth by putting its products in the hands of corporate business units. In the past, it focused mainly on the elite programmers in corporate tech central. The company just released a set of tools for creating software programs that are designed to be much easier to use. Now people with some tech know-how in business units can quickly build or expand programs running on the WebLogic server, rather than wait for specialists to do the job.

Spearheading that program is BEA's new chief marketing officer, Tod Nielsen. He used to run developer relations for Microsoft, so he understands just how hard it will be to survive a close encounter with the software giant. "I look out from my office, and I see that giant Novell office building. And I see a half-empty parking lot," says Nielsen. "I don't want that to happen here."

BEA caught Microsoft and IBM flat-footed once. It's unlikely to do that again.

By Jim Kerstetter in San Jose, Calif.

Information Technology

CORPORATE GOVERNANCE

QWEST: A NEW STINK BOMB

Did Phil Anschutz get a sweetheart deal called QDM?

Apr. 1 was filled with bad news for shareholders of Qwest Communications International Inc. In a conference call to investors to explain financial documents it filed with the Securities & Exchange Commission that day, officials of the Denver telecom company disclosed it would take a \$20 billion to \$30 billion charge to write down the value of goodwill on its books. On top of that, Chief Executive Joseph P. Nacchio said the SEC, which already was investigating Qwest's accounting practices, had opened a second inquiry—this time to determine whether the company should have provided investors more financial details following its merger with US West Inc.

In all the commotion, it was easy to overlook one more bit of bad news: Nacchio said the company had closed Qwest Digital Media, a joint venture that specialized in converting video footage into computer files that could be transmitted over the Net. Qwest took charges of \$33 million to write down the value of QDM in 2001 and shuttered the business in February, 2002. "Obviously, this market did not grow in the way we and many others thought it would," Nacchio said at the time.

To some Qwest shareholders, QDM represents more than just another bad investment. It raises questions about whether Qwest's founder and

chairman, Philip F. Anschutz, his personal interests ahead of QDM was created in 1999 as a 50-venture between Qwest and Anschutz, who was acting on his own. Qwest contributed \$85 million

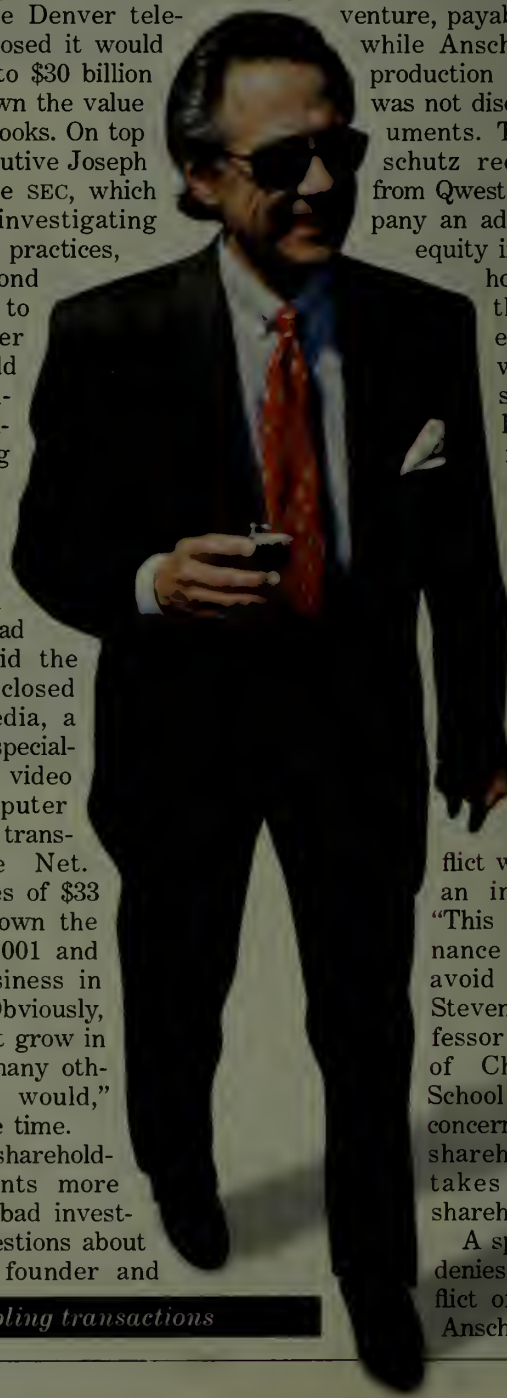
venture, payable over nine years, while Anschutz chipped in production assets whose value was not disclosed in public documents. Then, in 2001, Anschutz received \$48 million from Qwest for selling the company an additional 25% equity in QDM. Some

holders are outraged that Qwest liquidated its entire investment while paying Anschutz tens of millions of dollars, which reduced his stake in the venture.

Experts say the deal was unusual, though unheard of, for a top executive to invest in a business venture of his own company to which he has a fiduciary duty. The problem is that Anschutz' interests as QDM chairman may

conflict with his interests as an individual investor. "This is corporate finance 101—you have to avoid conflicts," says Steven N. Kaplan, a professor at the University of Chicago's Graduate School of Business. His concern is that the liquidation of the joint venture by a shareholder or chairman takes from the company the interests of other shareholders.

A spokesman for Qwest denies there was any conflict of interest. He says Anschutz paid \$85 million



ANSCHUTZ: Troubling transactions

the assets he contributed to QDM for a 25% stake, and Qwest bought the original 25% stake from Anschutz before, in 2000, Qwest thought video on the Internet had a bright future. It is noted that in both cases Qwest's independent board members signed off on the transactions and an investment provided objective appraisals. A spokesman for Anschutz declined to comment.

The QDM venture is just one example that appears to be a pattern of cozy financial dealings between Qwest and Anschutz. According to the company's April 8 proxy statement, Qwest paid \$1 million to rent space in an Anschutz-owned skyscraper in downtown Denver last year. An additional \$146,000 was paid to lease a suite in Anschutz's Station Center arena in Los Angeles. Anschutz-related entities have collected \$100,000 in insurance, legal, marketing, and other fees from Qwest in 2001. And in 1999, Qwest paid Anschutz \$34 million for a telecom company called Precision Systems Inc., which was later sold at a loss. Qwest says the rental value at market rates, the \$478,000 in

the "disregard for shareholders," said CalPERS Chief Investment Officer Mark J. Anson. "We have lost complete confidence in Qwest's management and board." Adds Nelson B. Phelps, president of the 45,000-member Association of US West Retirees: "It just reeks of cronyism—you take care of me, and I'll take care of you." We've got to get people on the board who want to do the best thing for shareholders and not for themselves." Qwest's spokesman says the board is acting in the best interests of shareholders.

The outcry has focused attention on the relationship between Anschutz and Nacchio. Anschutz, a low-profile 62-year-old billionaire who made his fortune in railroads and oil before turning to telecom, hired Nacchio from AT&T to run the little-known Qwest in 1996. Over the next five years, the brash, Brooklyn-raised Nacchio built the company into a

One shareholder says, "We have lost complete confidence in Qwest's management and board"

his target bonus to 250% of his base salary, and options on 7.2 million shares that vest through 2005.

The QDM deal certainly wasn't that lucrative. The Qwest spokesman says the company invested \$94 million in the company. Since Qwest expects to recover \$11 million from selling off QDM's assets, Qwest figures its loss from the venture will total about \$83 million. Qwest says Anschutz lost \$48 million in QDM, although his losses were

mitigated by Qwest's payment to him.

Qwest has much larger problems than the closing of QDM. This year, Qwest is expected to lose \$379 million as revenues decline 9%, to \$18 billion, according to Merrill Lynch & Co. Its stock is trading at \$5 a share, near its all-time low. And with bankruptcies racking the telecom industry, some investors are concerned that Qwest may not be able to pay off its \$25 billion in debt.

Perhaps, then, it's not surprising that

DIGITAL DEALINGS AT QWEST

Qwest and Chairman Phil Anschutz, acting on his own behalf, created Qwest Digital Media as a joint venture in 1999 to sell video production and transmission services to broadcasters and others. It was a better deal for Anschutz than for Qwest.

MARCH 1999 Anschutz acquires a TV production company naming it Slingshot—paying \$85 million, according to Qwest.

APRIL 1999 Qwest agrees to pay \$85 million over nine years for 50% of the equity in Qwest Digital Media, while Anschutz gets the other 50% for contribution to Slingshot. Separately, Qwest pays Anschutz \$34 million for Precision Systems, which Qwest later sells at a loss.

DECEMBER 2000 Qwest pays Anschutz \$48 million for an additional 25% of QDM—Anschutz retains 50% voting interest.

DECEMBER 2001 Qwest stops putting new cash into QDM and writes off \$18 million of the venture's value, on top of a \$15 million charge earlier in the year.

2001 Qwest pays Anschutz businesses \$5.1 million in rent, insurance services, and other fees during the year.

FEBRUARY 2002 Qwest closes QDM and begins selling off its assets.

APRIL 2002 Qwest discloses the QDM closing and write-downs in 10-K filing.

FINAL TALLY Qwest loses \$83 million on QDM, Anschutz loses \$48 million.

Data: Company reports

just covered Anschutz's costs, and Anschutz sold Precision to Qwest for \$1 million less than he paid for it. These transactions, coupled with the company's plummeting stock price and Nacchio's escalating compensation, have shareholders hopping mad. The nation's largest pension fund, the California Public Employees' Retirement System (CalPERS), named Qwest to its annual list of companies that fail to meet its standards for good corporate governance. "These decisions demonstrate bla-

legitimate player in the telecom industry. But during the past year, Nacchio has lost credibility with some investors by overpromising on Qwest's financial performance and by the company's use of aggressive accounting practices that have sparked the SEC inquiries.

Still, Anschutz and the board have given no public indication that their support for Nacchio is waning. Nacchio received a four-year employment contract in October. It included a 25% hike in his base salary, to \$1.5 million, a boost in

Qwest decided to hold its annual meeting far from the spotlight. Rather than Denver, where the company is headquartered, Qwest is holding the June 4 event in Dublin, Ohio. The company says that's because a large number of its employees are based there. Shareholders are still expected to attend and complain about Qwest's performance and Nacchio's pay. Perhaps someone will ask for more explanation about QDM, too.

*By Christopher Palmeri
in Los Angeles*



NACCHIO: Critics abound

As a group of young students troops by, their laughter echoing off display cases of African wildlife, Stephen Wolfram sits in New York's American Museum of Natural History and debunks 160 years of science. I'm scribbling fast and straining not to miss a word from this renowned thinker—a prodigy whose first physics paper was published when he was 15, who earned a PhD in physics from California Institute of Technology at age 20, and who won a MacArthur Foundation “genius” grant a year later, in 1981. Then, after making a mint by creating a software package used by scientists worldwide, he virtually dropped out of sight for a decade.

Moments before, Wolfram and I were standing in front of one of the dioramas, studying a stuffed zebra. Now, parked on a hard bench, he's pointing to photographs in his new 1,200-page book to make his case against natural selection. Conventional wisdom holds that the vast diversity of zebra-stripe patterns is produced by some complicated genetic mechanism and confers a survival advantage. Not so, says Wolfram. The stripes actually result from a simple set of coloring instructions. In essence, Wolfram contends, Mother Nature said: “They’re not disastrous for the animal. They’re easy to make. So what the hell—let’s keep on making stripes.”

That may not sound outrageous. But Wolfram is only getting started. He asserts that all complex phenomena are produced by simple rules. Scientists, he says, should be striving to uncover the underlying simplicity—not just searching for explanations by carving complex phenomenon into smaller and smaller, more digestible pieces.

In fact, Wolfram insists, that approach has led to lots of misleading answers. As we wander through the museum, he refutes much of what gets taught in science classrooms. For example, he says he can prove that physics’ Second Law of Thermodynamics—that order inevitably disintegrates into disorder—isn’t always true. It just seems that way because we haven’t been able to concoct the right experiments to show that the second law is reversible.

No doubt his most controversial notion is the radical claim that most of what happens in nature, from the way leaves flutter in the breeze to the thought patterns of our brains, may spring from the same computational processes. “The aphorism that the weather has a mind of its own may be less silly than you might imagine,” Wolfram says. “The weather represents

RESEARCH

SIMPLE SCIENCE

Stephen Wolfram thinks his radical idea—that all phenomena are programmed by basic rules—will revolutionize what’s taught in classrooms and practiced in labs

BY MICHAEL ARNDT

computations as sophisticated as anything in our brains.”

All this stems from an 11-year odyssey during which Wolfram was holed up at his computer, searching for nothing less than a unifying explanation for every branch of science. Along the way, he tells me, he made several discoveries that lay the foundations for a scientific revolution.

In science as we now know it, great thinkers hatch mathematical formulas to explain how things work, from the pull of gravity to the speed of light. Many of their equations are deceptively simple, like $E=mc^2$. But solving some of them in exquisite detail could take decades, even with the world’s fastest supercomputers. So scientists have devised elaborate shortcuts that provide “good enough” approximations. As science probes ever more deeply into nature’s enigmas, their shortcut formulas have grown increasingly clever. But they still leave many basic issues unresolved, such as the relationship between gravity and quantum physics.

Now this 42-year-old, self-made multimillionaire declares that he has found a methodology for solving such riddles, explained meticulously in his hefty book,

A New Kind of Science. Here, Wolfram posits that virtually everything—patterns on seashells, the ticks of special markets, even the universe itself—is the result of instructions as simple as an eight-step software program (table, page 94). Unearthing all these rules, he declares, could lead to a scientific renaissance. Biologists, for instance, could pinpoint the code governing the complex shapes and folding patterns of proteins.

Within a generation or two, Wolfram predicts, his new kind of science will be taught in schools along with chemistry and math. He says his theory could even supplant today’s physics; because it doesn’t require calculus, it will attract smart researchers who don’t want to learn advanced math. Wolfram also sees a day, perhaps in his lifetime, when his name will be enshrined along with those of Isaac Newton, Charles Darwin, and Albert Einstein.

Time out! Wolfram makes his case in such a matter-of-fact way, as if he were passing on the weather forecast that it takes me a moment to grasp just how audacious they are. No offense I say, but do you really think you’ve unlocked the secret to the universe?



ICONOCLAST: *Wolfram worked alone on his theory for more than a decade*

holed up with his son, searching for some pattern. He never found one.

That Wolfram would write such a confounding program probably shouldn't have been a surprise. The older son of a novelist father and a mother who was a philosophy don at Oxford University, Wolfram left Eton in 1976 (bored, he says), and St. John's College, Oxford, in 1978 without graduating (still bored). Wolfram left Caltech for a different reason: a legal dispute erupted over the rights to software that he had developed. "I admire Steve enormously for his work on software," says Tommaso Toffoli, a cellular-automata pioneer at Boston University. "But he has been suing everyone forever."

The Institute for Advanced Study was Wolfram's next stop. After three years, he got into another fight, this time over his academic role, and quit in a huff. Even Wolfram's admirers concede that he's a publicity hound. "He has a very robust sense of self-esteem," notes Rudolf Rucker, a computer scientist at San Jose State University. Feeling underappreciated, Wolfram put himself up for bid. The University of Illinois won the auction. It made him a professor of physics, math, and computer science and granted clear intellectual-property rights on his discoveries.

With seed money from his \$128,000 genius grant, he founded Wolfram Research Inc. in 1987. Only a year later, he launched Mathematica, a comprehensive program that makes it easy to do higher math, such as symbolic manipulation. It became a runaway hit despite a hefty price tag—the latest version sells for \$1,495. Because it can help engineers and scientists gain new insights into complexity, "Mathematica is one of the most important pieces of scientific software ever written," says Larry L. Smarr, head of the California Institute

yes," he answers instantly. "I t been as bold as this before, but en right. There are a lot of things ve figured out that have been big ries for a long time."

he scientists agree that Wolfram be blazing a trail. Gregory J. n, a renowned mathematical theo- IBM Watson Research Center, Wolfram's thesis as "revolution- Richard E. Crandall, former chief st at NeXT Software Inc. and now ed College's Center for Advanced utation, calls Wolfram's book "a rpiece."

everyone in the scientific com- y concurs. Some dismiss the book ehash of Wolfram's breakthrough in the 1980s on so-called cellular ata, a type of elementary com- program that gen- s line after line of and-white squares, ng each addition on the pattern in eceding line.

Wolfram, the old e ended in 1984 he was doing parti- physics research at nstitute for Ad-

vanced Study in Princeton, N.J. Fid- dling around with cellular automata, he decided to write new rules for producing the successive lines of squares, or cells. At first, the results were symmetrically predictable. Then came Rule 30. This time, the symmetry disappeared: The orderly portion was clearly giving birth to disorder—simplicity was spawning complexity.

Eager to share his discovery, Wolfram flew to California and showed a printout to Richard P. Feynman, a Nobel laureate and former collaborator at Caltech. The two got down on the floor and laid a

While other researchers are skeptical, Wolfram claims that his new theory could one day supplant conventional physics



meter stick at various angles, trying to spot some sign of order—perhaps a hidden fractal pattern that would pop out by examining progressively smaller features. Next, Wolfram says, Feynman spent a week in Hawaii on vacation, mainly

for Telecommunications & Information Technology at the University of California's San Diego campus.

Running a high-tech startup took Wolfram away from academic research. No matter, Wolfram remembers thinking at first. Others would recognize the importance of Rule 30 and take the

research forward. But they didn't.

That's mainly because many researchers working in the field of chaos and complexity science don't agree that cellular-automata mechanisms can really explain all complex phenomena. "There must be a missing step," says Raymond C. Kurzweil, author and president of Kurzweil Technologies Inc. "Ultimately, the patterns are not that complex. They're all kind of similar and too low-level to explain the evolution of higher levels of intelligence."

When Wolfram realized that other researchers just weren't getting the message, he decided he needed to do the work himself if his discoveries were to advance. In 1991, Wolfram unplugged from the world. Working alone at home, he sat at his computer for hours on end, running scores of rules to explore how they apply to all branches of science. Typically, he'd work from 10 p.m. until sunup, sleep till mid-afternoon, then spend time with his wife, a former mathematician, and their three children.

The life of a recluse came naturally. Even with the book finally in print, Wolfram doesn't unwind with colleagues or employees at a bar. He doesn't play sports or follow politics. Rare for a mathematician, he doesn't even listen to music, except in his car, if he can find something by Mozart.

According to those who have worked with him, Wolfram was often impatient and condescending. "He wouldn't hesitate to tell you that you're full of it," recalls Theodore Gray, who has known Wolfram since 1987 and is a member of Wolfram Research's executive committee. But Gray swears the man has meltdowns in his role as a manager. "He has realized there is no point exploding at people in the production department. That's counterproductive."

Yet arrogance lingers on, and it has carried over to his book. No part was offered for the usual peer-review process. Nor was the manuscript scru-

tinized by a book editor. Indeed, he balked at taking it to a publisher, preferring to release it himself through Wolfram Media Inc. He notes that other pioneers took a similar course. Both Newton and Darwin spent years in isolation before delivering their bombshells in a single volume.

Past the dioramas of African wildlife, he and I stop at a display of fish. Their

problems in physics, such as fluid turbulence. "Some aspects of physics fit quite neatly," he says, "but then often doesn't get very far into the

Perhaps that means Wolfram won't catch on any faster now than he did before. His book is readable, its rich illustrations help make his understandable to nonscientists; he may need to elucidate further

reap scientific accolades for practical payoffs since Mathematica. Cryptography may be the real application. The random sequences generated by Rule 30 could work well for coding information, experts. Other rules also yield Mathematica tools for understanding the flow of fluids, which help engineers design better aircraft and build

Mostly, though, the points to far-off beyond. "This is really basic research—as basic as gets," says IBM's C. "This kind of stuff has practical offshoots but they could be 50 years down the road."

Fair enough, responds Wolfram. Now that he has created Mathematica and come rich, started a company and published a 1,200-page tome, he again has time to return to research and prove that his theories are right. "One of the big challenges in doing a project like this is having confidence to believe you can do something meaningful," he says—quickly adds: "This piece of philanthropy is for the world."

It's much too early to place a value on his book. But by challenging scientific orthodoxy, Wolfram may force scientists to

explore new avenues in their quest for knowledge. That, by itself, could be quite a present.

With Peter Coy
Otis Port in New

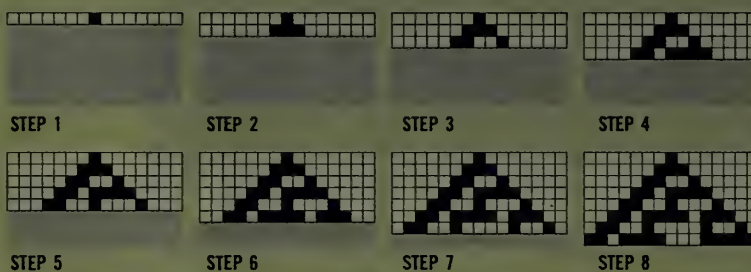
REINVENTING NATURE

For 20 years, Stephen Wolfram has experimented with computer programs called cellular automata. These programs dictate the appearance of cells in a grid, in accordance with simple rules such as the following, known as "Rule 30"

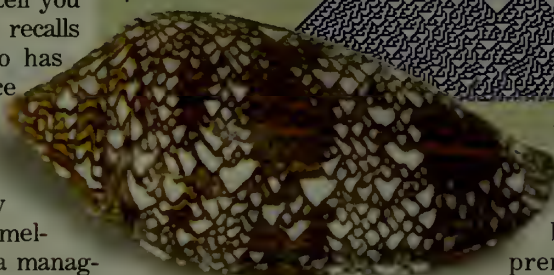
Rule 30 consists of eight templates. Based on these, the program generates rows of squares called cells, coloring them dark or light. Each cell looks to the three cells above it.



Depending on which triad a cell sees in the row above it, it either darkens or remains white. From the eight templates above, the program progressively fills in the grid, as below:



Nature may not literally employ cellular automata to work its wonders. But similar mechanisms could account for much we see around us—the patterns on shells, the formation of storms—forcing scientists to rethink natural phenomena.



an unexpected profusion of shapes and patterns. While Kurzweil and others don't believe Wolfram has proved that cellular automata also can account for intelligence, Kurzweil admits he's fascinated by their application to certain

sheer variety, Wolfram says, backs up his premise that a simple formula can yield

Data: Stephen Wolfram, *BusinessWeek*

BusinessWeek online

For Ray Kurzweil's review of *A New Kind of Science*, and other material, see the May issue online at www.businessweek.com

ED BY ADAM ASTON

EL WANTS TO
A VIDEO PLAYER
OUR POCKET

OF IT AS TIVO TO GO—
MP3 player for movies.
s Emerging Platforms
in Hillsboro, Ore., has
ned what it calls a per-
video player—a hand-
digital-movie player that
be built by a licensed
mer electronics manu-
rer and sold for under
With it, you would be
to watch movies during
ne trip or make your
nuter train ride pass
quickly with a TV show
you recorded off cable
ight before.
e prototype PVP includes
r-inch color display and
lt around a 400-MHz In-
Scale processor, a 30-gi-
te Toshiba hard drive
holds 100 hours of video,
a battery designed to
for several hours.
ading the gizmo should
sy, thanks to high-speed
ection slots—think USB
which is starting to ap-
on new computers, or
Wire—that are popping
all kinds of consumer
ets. Researchers envi-
consumers zapping
es onto their PVPs while
ome from cable TV, TiVo
rders, or DVD players. Or,
rport kiosks, travelers
at download a movie or
before a flight.
ounds great, but it will
work if media content
ers cooperate. Intel
o. promises to include
al-rights management
ware in the player, but
ie wake of the MP3 phe-
enon, Hollywood is in-
singly spooked about
al reproduction and is
ing to restrict it. But if
l can assuage the movie
stry's worries and get a
mer electronics partner
ard, PVPs should start
earing in handbags near
as early as next
Stephen H. Wildstrom

PROSTHETIC RETINAS FOR THE BLIND



TWO DECADES AFTER THE FIRST COCHLEAR IMPLANTS helped the deaf hear, surgeons at the University of Southern California are a step closer to helping the blind see. On Apr. 30, they implanted a wireless prosthetic retina into a blind patient. It was the first of two planned tests of the device from Valencia (Calif.)'s Second Sight, which is developing aids to combat macular degeneration and other retinal disorders.
In the test, implants measuring 5 mm by 5 mm were placed in the retina and connected by a wire to a second device surgically inserted behind the ear. Recipients wear sunglasses containing a wireless camera that transmits images to the head implant. Electrodes in that device transmit electrical pulses to the retinal implant. The current stimulates living cells in the retina to send signals the brain interprets as shapes, colors, and lines—but not distinct images. The goal for now is to help patients gain more mobility, says Robert Greenberg, CEO of four-year-old Second Sight, which hopes to market the implant as soon as 2005. It is working on an improved version that will deliver higher-resolution images. *Arlene Weintraub*

MAKING STORM
DRAINS THE LAST
STOP FOR TOXINS

RAIN IS A WELCOME SIGHT in a drought, but once it hits a city sidewalk, the freshness turns foul. Dissolved hydrocarbons such as oil, gas, and grease run largely unfiltered into the nation's countless storm sewers—along with traces of heavy metals, pesticides, and animal feces. Then it all washes into nearby rivers or offshore outfalls. This witch's brew, says Steve Fleischli, executive director of the Santa Monica BayKeeper, a nonprofit watchdog

group, spoils fresh water, can threaten public health, and often violates Environmental Protection Agency policy.
AbTech Industries, based in Scottsdale, Ariz., has a remedy that doesn't require digging up city streets. When dropped into existing storm water drains, the company's Smart Sponge filter acts like a supersize sink trap. Made of a proprietary polymer that bonds permanently with oil, the high-tech mats—which look like compressed pop-



TAINTED: Smart Sponge could protect rivers

ROBOTS THAT
KEEP THEMSELVES
ON THE RIGHT TRACK

WHILE MACHINES EXCEL AT doing repetitive tasks, even sophisticated camera-equipped robots can fail if they or the materials they're handling get jostled out of alignment. MechVisual in Park City, Utah, and Steven B. Skaar, an engineering professor at Notre Dame University, have built a control system for robots that need not be carefully—or expensively—calibrated to their surroundings. Instead, a robot running the new system uses two ceiling-mounted digital cameras to locate and adjust its lifting arm, in real time, to do its work.
A MechVisual prototype is being tested at a Florida paper mill. There, a basic industrial robot made by Zurich-based ABB is wired to a desktop PC running MechVisual's software and linked to two ordinary digital cameras. For six weeks, the test robot has been flawlessly stacking massive tubes of paper on a pallet—work once done by hand, says MechVisual CEO Bruce Fryer. The company hopes to sell robots, complete with software and digital eyes, for \$22,000. *Michael Arndt*

corn—let water pass but absorb oil, PCBs, and other toxins before they flow downstream.
Illness-causing bacteria are AbTech's next target. In March, the company successfully tested an antibacterial coating on the filter. The EPA-approved treatment, made by BioShield Technologies of Norcross, Ga., helps cut the damage done when sewage spills taint water bodies with potentially deadly bugs. Three states are testing the antibacterial filter kits. ■

**Meet Benjamin. Internet Dependent
Independent Filmmaker.**

**And the inspiration behind cost-effective
connectivity environment**

The competitive world of independent filmmaking is not for the fainthearted. It's for strong-willed directors like Benjamin, who seize opportunity with an iron will. That's why he found a way to work with his production partners quickly and efficiently to get his films in the market and out to the world. First, he teamed up with Nortel Networks™ to streamline his communications system with an all-in-one, multimedia platform. Add the high-speed optical connectivity from his service provider and he and his partners have instant and secure access to everything from location photos to streaming video of his latest project. Which means he saves time and money so he can concentrate on producing the kinds of films that just may have him rehearsing an acceptance speech. It's just one more way Nortel Networks is making the Internet what you need it to be. To learn more, visit nortelnetworks.com/connectivity.

Nortel Networks, the Nortel Networks logo and the Globemark are trademarks of Nortel Networks. ©2002 Nortel Networks. All rights reserved.

BusinessWeek

Investor

MAKING LIFE RICHER



■ A Road Map for
Picking Stocks

■ Frequently
Asked Questions

■ Barker: Tax Help
For Fund Holders



Online Trading: Watch Out for Hidden Costs

Brokers are adding fees, but also offering more advice

• BY LEWIS
BRAHAM

When is a \$29.95 brokerage trading commission not really \$29.95? When you trade online at Charles Schwab. In March, the San Francisco-based broker tacked on a \$3 "order-handling fee" for all stock trades, effectively raising its \$29.95-per-trade commission to \$32.95. Yet in the "Schwab commissions" section of its Web site, the firm still advertises the old commission rate, mentioning the handling fee in a footnote but not saying how much it is.

If the bear market has sidelined you or you're trading online for the first time, you may experience a case of sticker shock. The online brokers have suffered mightily, and many who were in business two years ago are no longer here. With online trading volume down 50% or more from the bull-market highs, the Web brokers that remain are remodeling their businesses, adding more investment products and advice. They're also slapping customers with additional fees, and some are raising commission costs as well.

So investors shopping for an online need to be more discriminating than ever. Before you choose, ask yourself some questions: How frequently will you trade, and how much money do you have to invest? Are you more interested in mutual funds? Does financial advice matter more to you than trading fees? The answers will determine which online broker is best for you (table, page 100).

If you haven't traded online for a while, you may have already forgotten the much-loathed—at least by investor message boards—"inactivity fee." The terms vary by broker, but the fee is levied on accounts that trade infrequently. Ameritrade's \$15-a-quarter inactivity fee hits clients who don't trade at least once every six months. "There is a cost of care of brokerage clients who are not doing enough business with you," says Joe L. Ameritrade's CEO. "We're happy to have clients, but we don't want to pay for them out of our own pocket."

You can usually avoid these fees if you

**ONLINE
INVESTING**

gh money invested with the firm. Brokers profit from a large account even if it's inactive because they collect a percentage of the management fees in the mutual funds and non-market accounts the client owns. As a rule, higher a firm's overhead costs are per account, the more money it will require to avoid inactivity fees. At brokers with a lot of bells and whistles, the bar is set fairly high. Schwab, for instance, charges \$30 a quarter for accounts with less than \$50,000, while at Ameritrade, you need only \$2,000 to avoid the fee. While brokers are now penalizing inactive investors, they have been rewarding active ones with cheaper trades. Last August, TD Water-

house split its customers into tiers: Choice, Premier, and Premier Select. Choice customers, who trade less than 18 times per quarter, saw their commission jump from \$12 to \$14.95. There was no hike for Select customers, who make from 18 to 36 trades. Premier Select clients, who trade 37 or more times, pay only \$9.95. "Previously, our active customers were carrying the costs for the inactive ones," says Stuart Rubinstein, a marketing vice-president at TD Waterhouse. "This pricing system is fairer."

Of course, cost isn't everything. One of the perks of going with a pricier firm such as Schwab, Quick & Reilly, E*Trade, or Fidelity is that they offer personalized advice. Advice at full-service

You can usually avoid certain fees if you have enough money invested with the firm

THE PRICE OF TRADING ONLINE

WEBSITE (WWW.)	MARKET/ LIMIT ORDER	MUTUAL FUND ORDER	INACTIVITY FEE	COMMENTS
AMERICAN EXPRESS americanexpress.com	\$19.95/ \$19.95	\$39.95	\$10/quarter	No inactivity fee if balance exceeds \$25,000 or if you trade once per quarter.
AMTRADE amtrade.com	\$8/\$13	\$18	\$15/quarter	No inactivity fee if balance exceeds \$2,000 or if you trade four times every six months. Paper trade confirmations are \$2 each.
AMERITRADER meritrader.com	\$5/\$10	\$15	None	Market orders are free and limit orders \$5 when buying more than 1,000 shares.
WELLS FARGO & CO. wellsfargo.com	\$5/\$10	\$5	None	\$12 a year check-writing fees; \$25 for annual statement.
CHARLES SCHWAB schwab.com	\$29.95/ \$29.95	\$35	\$45/quarter	\$45 per quarter fee for accounts smaller than \$5,000; \$30 for smaller than \$50,000; fees waived if you make at least eight trades a year. \$3 order handling fee on stock trades.
E*TRADE etrade.com	\$14.95/ \$19.95	\$24.95	\$25/quarter	No inactivity fee if balance over \$5,000 or if you make two trades every six months.
FIDELITY fidelity.com	\$25/\$30	\$75	\$50/year	No inactivity fee if balance over \$30,000 or if you've made two trades in the past year.
PRISDIRECT prisdirect.com	\$20/\$20	\$35	\$15 quarter	No inactivity fee if balance exceeds \$10,000 or if you trade four times a year.
INTERACTIVE BROKERS interactivebrokers.com	\$1/\$1	N/A	\$3 a month	To avoid inactivity fee, must subscribe to market data feeds, which cost \$10 a month.
DRILL LYNCH DIRECT drilllynchdirect.com/	\$29.95/ \$29.95	None	None	Very few additional fees. Free research reports, but no advice for online customers. 740 no-load funds.
IRIEL SIEBERT irielsiebert.com/	\$14.95/ \$14.95	\$35	None	IRAs under \$10,000 charged \$30 a year.
MORGAN STANLEY ONLINE morganstanleyindividual.com	\$29.95/ \$29.95	\$35	None	\$40 IRA annual maintenance fee.
QUICK & REILLY quickandreilly.com	\$23.95/ \$23.95	\$25	\$35	No inactivity fee if balance exceeds \$5,000 or if you trade at least once per year. Trading costs have recently gone up.
OTTRADE ottrade.com	\$7/\$12	None	None	\$1 each for paper trade confirmations.
TD WATERHOUSE tdwaterhouse.com	\$14.95/ \$17.95	\$24	\$20 a quarter	No inactivity fee if balance over \$10,000 or if you trade two times every six months. Paper trade confirmation costs.



Although no broker offers everything, Scottrade seems to have a good balance between cost, products, and service. It charges only \$7 for a stock trade, and there's no transaction fee for many mutual funds

firms such as Merrill Lynch is not available to online-only clients. All will give you a quick portfolio review for free. Getting more detailed advice costs more. Schwab's 430 U.S. branches can give you a financial plan, analyzing your asset allocation based on your investment goals. Costs range from \$250 to \$500, depending on your portfolio size.

Fidelity has cracked the advice nut in a different fashion. The firm offers a comprehensive online tool called PortfolioPlanner, which aggregates the information for all your financial accounts, even non-Fidelity ones, and helps you design an asset-allocation plan based on a risk questionnaire. That's free online or at Fidelity branches. If you don't want to manage your account, you can sign up for Portfolio Advisory Services for an annual fee of 1.1% of assets.

Breadth of product is also a key consideration for some investors when choosing an online broker. The lowest-cost brokers—BrokerageAmerica, Brown & Co., Interactive Brokers—offer a limited product base: stocks and options and sometimes mutual funds and bonds. But at most of the bigger firms you can also buy annuities, initial public offerings, and privately managed accounts. At E*Trade, for instance, you can invest in a managed account, which is customized to your specific investing needs, for a fee of 1.5% of assets. That's significantly lower than the 1.89% average fee for managed accounts. Schwab and Fidelity offer no-load annuities with below-average fees.

Although no broker offers everything, Scottrade seems to have a good balance between cost, products, and service. It charges only \$7 for a stock trade, and there's no transaction fee for some 1,738 no-load mutual funds, including those run by some low-cost companies such as Vanguard and T. Rowe Price, which normally don't participate in no-transaction-fee programs. In addition, Scottrade levies no inactivity fees and has no plans to add them, says Bruce Morton, the company's marketing director. You can get help with a trade and other information on the phone or at one of 185 walk-in offices, but Scottrade does not offer financial advice.

If you really want to get the full-service broker treatment at a bargain basement price, a smart strategy is to invest with more than one broker. "Many of our clients have two accounts," says Andrew Sycoff, CEO of BrokerageAmerica, which only charges \$5 per trade. "They get their advice from another broker but trade with us." Setting up an account with BrokerageAm-

THE BEST ONLINE BROKERS FOR...

...LOW COMMISSIONS

Interactive Brokers
BrokerageAmerica
Brown & Co.

...MUTUAL-FUND INVESTING

Scottrade
Brown & Co.
TD Waterhouse

...BREADTH OF PRODUCT ONLINE

E*Trade
Charles Schwab
Fidelity

...INVESTMENT ADVICE

Schwab
Fidelity
Quick & Reilly

...TRADE EXECUTION

Merrill Lynch
Fidelity
Interactive Brokers

erica requires a minimum investment of \$1,000 so it is expensive to maintain, especially since the charges no inactivity fees if you place an order for more than 1,000 shares of a stock. You don't pay a commission.

The reason BrokerageAmerica can charge nothing for big orders is an important cost consideration in itself. Many brokers only profit from the transaction fee on a trade but also from the spread between the buy "bid" price for a stock and the selling or "ask" price. The more you trade, the more you do this by acting as a market maker. So if a stock's bid is \$10.05 and the ask is \$10.10, the broker can profit by selling the stock to a buyer for a few cents less than the midpoint between the two prices, \$10.075, and buying from the seller for a few cents less than that midpoint. The difference in execution cost between brokers generally amounts to a few pennies per share on a big order they add up.

The narrower the spread, the lower the execution cost for the investor. Using software provided by Transaction Automation Group (TAG), a Northport, Ala., company that analyzes broker

execution, we looked at trades of 100 shares on Nasdaq 100 stocks for March. We found Merrill Lynch offered the best execution. Its spreads were 84.1% of the widest spread. Fidelity was a close second at 88.4%, Schwab at 93.4%, Morgan Stanley at 94.9%, and BrokerageAmerica at 98.8% were not as good.

Some brokers are not marketmakers but route orders to outside firms to be executed. Half of the Nasdaq stock orders at Scottrade and Ameritrade, for instance, go to Knight-Ridder Securities, where the spread is 91.1%. At most online brokers, you do not get a choice as to which marketmaker fills your order. One significant exception is Interactive Brokers, which has a routing system that allows you to compare prices for stocks at different marketmakers and send your order to the one with the best price.

Interactive Brokers offers the best deal for the cost-conscious. Yet Interactive Brokers offers only stock futures, and options trading, and provides little human interaction. However, to receive the data feeds for marketmakers, you have to pay the firm monthly fee.

As with every online broker, there's always a tradeoff. So you have to decide which features are most important to you and choose the broker that best fits the bill.

ONLINE

INVESTING



How to Dig Deep with a Few Mouse Clicks

Answer frequently asked questions about using the Web to search out juicy data

SUSAN
REIK

If you're like many investors, you can find a stock's price online in an instant. But do you know where to find a company's most recent 10-K, check the yield on a bond, or check out the date and the terms of a stock split? Business librarians say they hear the same questions over and over again from investors who want access to financial information on the Web. Here are 10 commonly asked questions, and the answers to them.

How do I get a company's annual report and its Securities & Exchange Commission filings?

You can usually obtain a company's annual report on its Web site. The SEC's vast EDGAR database provides a more detailed version of the annual report (the 10-K), as well the 10-Q, which is a company's quarterly update on sales,

earnings, and other financial data. Investors have free access to these SEC filings at www.sec.gov and www.FreeEDGAR.com. If you become a 10-K junkie, consider subscribing to www.EdgarOnline.com, a fee service that lets you do more sophisticated searches for information in SEC filings, and sends you e-mail alerts when companies you track file with the SEC.

ONLINE INVESTING

Where do I look up the latest company news?

One of the easiest sites for news-hounds is Microsoft's moneycentral.msn.com, which compiles company and market news from Reuters and other news services. You can look up news by company, industry, or topic.

Investors who want to see it all at a glance will like CBSMarketWatch.com, which provides summaries of over a dozen timely stories on its

home page. If you want to read the full version, just click on a particular story.

How can I listen in on conference calls between company executives and stock analysts?

Most companies hold conference calls shortly after announcing quarterly earnings. These meetings are usually Webcast at the company's Internet site, and most companies will send e-mail alerts of upcoming calls to shareholders who request them. If you miss the live event, a replay usually remains available for at least a week afterward.

Several Web sites maintain a calendar of upcoming conference calls, including BestCalls.com, www.CompanyBoardroom.com, and Vcall.com.

Where can I find historical data on stock prices, stock splits, and special dividends so I can calculate losses or gains on shares I recently sold?

First, check the company's Web site. It may be in the investor sections. Otherwise, three Web sites with long stock-price histories are investor.cnet.com (type in the company's ticker symbol, then click on splits), finance.yahoo.com (type in ticker symbol, then click on historical prices), and businessweek.com (type in ticker symbol, then click on historical quotes).

Where can I obtain bond prices, yields, and credit ratings?

InvestinginBonds.com, the site of the Bond Market Assn., a trade group, is geared to beginners, with bond-pricing data as well as helpful explanations of the different types of bonds. There's also a calculator that lets you compare municipal bonds to other debt securities on an after-tax basis. Bondsonline.com provides more detailed data and analysis, and daily updates of the Treasury yield curve. It also offers frequently updated market news and useful links to credit agencies and TreasuryDirect, where online investors can buy Treasury securities directly from Uncle Sam.

What are the differences between the various share classes of mutual funds?

When brokers and financial planners sell mutual funds, the fund company typically pays them a sales commission. The different share classes, usually called A, B, or C shares, and so on, denote how that sales charge is levied. A shares, for instance, often carry a one-time, up-front fee of 3% to 6%. By contrast, you usually pay the fee for B shares, which starts at around 5% and can decline over time to zero, when you exit the fund. Annual management fees also differ with each share class.

The SEC's Web site, www.sec.gov, can help you figure out which share class of a particular fund is most economical in your situation. On Interactive Tools for Investors, then Fund Cost Calculator. The SEC's share-class calculator takes into account how much you plan to invest, and how long you think you'll hold the fund. You must also plug in data about the costs of the various share classes. That's why it's a good idea to first go to the fund company's Web site for the fund's prospectus, which contains the information you'll need on fees.

ONLINE INVESTING

Where can I find out about new funds that are rated by sites such as Morningstar.com?

Try MAXfunds.com, which delivers useful information on funds young and old. A new feature, New Funds Just Hatched, provides a detailed evaluation of fledgling funds, including recommendations on which type of investor you want to buy the new fund, if any.

Where can I learn about exchange-traded funds?

Everything you'll ever need to know about ETFs, as they're called, you'll find at ETFconnect.com and iShares.com. The sites explain the tax advantages of ETFs and provide other useful information. You'll also find useful tools to help you evaluate individual ETFs. At ETFConnections.com, type in the symbol of the ETF to access ETF Facts, a page-long snapshot of practical information about the fund, including top holdings, annualized returns, links to the fund's Web site, and daily pricing.

Where can my kids learn about investing?

A top-notch Web site that teaches youngsters about saving and investing is www.investor.com, named after the Stein Roe Investor mutual fund, which invests in environmentally friendly companies. You don't have to be a shareholder to use this engaging Web site, which is packed with investing quizzes and games geared toward fifth-, sixth-, and seventh-graders.

How can I look up complaints or disciplinary actions against my stockbroker?

Visit the Web site of the National Association of Securities Dealers Regulation, at nasd.com. There, you can get employment and disciplinary information on individual brokers from the agency's database. Click on Broker Information, then NASD Regulation Disclosure Program, then Perform an Advanced Search.

One caveat: The data provided by the NASD isn't as detailed as disciplinary reports available from state securities regulators. You'll find links to state regulators at nasaa.org, the Web site run by the North American Securities Administrators Assn. States don't offer disciplinary data on individual brokers online, but the sites provide phone numbers you can call to get the information.

Need to know how the mutual-fund share classes differ? Where to learn about exchange-traded funds? A good place to teach your kids about investing? Read on

How Well Does the Net Trawl for Stocks?

How a woman's search to reel in the right stuff for a retirement portfolio

CAROL MARIE
PER

The Internet opens a world of information and provides handy tools to uncover investment opportunities—at least that's what its promoters say. So I decided to log on and actually test this hypothesis. Here's what I found:

There are thousands of stocks out there. And my mission was to find only a handful. That shouldn't be that hard, right?

Before I started, I decided I wanted stocks that could be stashed in a retirement portfolio, not ones that would need daily monitoring. I'm basically a value investor but I wanted to include some equities that offered good

investor.com. Many brokers provide their own, and even S&P, reports free to clients on their Web site. Of course, general industry news is scattered throughout the Net. Scottrade.com, an online broker, does a good job of organizing news by industry.

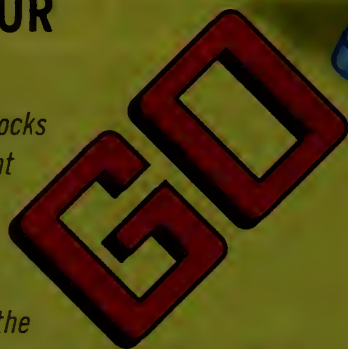
I started by looking for promising industries that were also familiar. S&P liked home furnishings and Value Line favored restaurants, and there's no mystery in what they do. Furnishings tend to be cyclical, but I planned to add exposure to health care, a defensive sector that could thrive as baby boomers age. Biotechnology tempted me, though I knew it held risks. And computer technology still seemed like a good

\$65 for a 13-week trial, but includes stock reports as well. Ten stock reports per month now come with S&P's Outlook product, and subscribers to *BusinessWeek* or its Web site can get three reports at businessweek.com.

Or you could buy individual S&P reports, as well as those from investment house analysts, for \$5 and up at Yahoo! or multixin-

BUILDING YOUR PORTFOLIO

There are thousands of stocks out there. Finding the right ones requires a plan—lots of research. Here's how I assembled a portfolio with the help of the Web. All URLs are preceded by www.businessweek.com except for finance.yahoo.com



STEP 1 Getting Ready

I started out knowing I wanted to focus primarily on value stocks with market caps above \$200 million, and industries I could understand, such as restaurants and home furnishings. If you're not sure what kind of investor you are, you can go to the Web to read up on investing styles, risk tolerance, and stock-picking criteria.

businessweek.com (investing channel)
smartmoney.com (SmartMoney University)
scottrade.com (news by industry)

ONLINE INVESTING

growth potential in return for some added risk and volatility. I intended to focus on a company's long-range prospects and whether its price could be justified.

Becoming familiar with stocks and what's happening in the market is a must for a do-it-yourself investor. Web sites like finance.yahoo.com and CBS.MarketWatch.com can help on that score.

But good industry information is hard to come by on the Net—and you often have to pay for it. Standard & Poor's charges \$19.50 a month for its Outlook Online (spoutlookonline.com), which ranks industry sectors and lists promising stocks (S&P, like *BusinessWeek*, is part of The McGraw-Hill Companies). There is a 30-day free trial. Value Line (valueline.com) costs \$598 a year, or

bet for the future. As a value investor, I thought I'd trawl for bargains in airlines, an industry hard-hit since September 11. After that, I wanted to see where the stock screens and company research led me.

Plugging value-oriented criteria into the full search screen at quicken.com, I came up with some tantalizing restaurant choices, as well as a few retailers I knew. My first screen was demanding. I eliminated very small, illiquid companies by setting a minimum market capitalization of \$200 million. Then I asked for a price-to-earnings growth (PEG) ratio below the industry average and a price-to-sales ratio of 1.5 or less. To ensure good management, I demanded a return on equity above the industry

I eliminated very small, illiquid companies by setting a market capitalization of \$200 million. To ensure good management, I demanded a return on equity above the industry average

average. Given the uncertain times, I added a below-average long-term debt-to-assets ratio.

Brinker International and Papa Johns International were restaurants that turned up. Upscale department store Neiman Marcus and more moderately priced Pier 1 Imports were also there. As I loosened the criteria, dropping the PEG and the price-sales requirement, other familiar names—Lands' End (which I spotted before Sears announced its takeover May 13, pushing up the price) and Bed Bath & Beyond—came into view.

Since I wanted to include growth stocks, I also did a couple of screens for that. First, I asked for companies where the 1-year, 3-year, and 5-year earnings-per-share growth had exceeded the industry average, and where that was expected to happen again over the next five years. I specified the \$200 million minimum market cap and insisted on a 1.0 or less long-term debt-to-equity ratio to eliminate companies with the greatest financial risks. I also screened for stock price strength. One of the resulting stocks, Cheesecake Factory, had already shown up on one of my value screens.

Then I ran a screen for companies that had seen EPS and revenue growth of at least 25% in the past 12 months and were predicted to enjoy growth that high over the next five years. I again set a minimum market cap, and demanded a PEG of 1 or less. Specialized

Boeing, where a p-e ratio below the ROE made it a value play. Neither had shown up on my screens, but S&P rated them buys.

By now, I had more stocks than I could comfortably research in-depth. I needed to winnow the list. I began by using www.starmine.com, a site that tells you whether top-rated analysts think a stock is a buy or a sell (which brokers often do with the seemingly neutral "hold" rating). Jet in the Box fell by the wayside because of relatively low ratings. So did Cheesecake Factory. As

Warner was dropped as I plugged candidates into valuepro.net, a tool that lets you value a company using a discounted cash-flow model. For Jet at \$17.35, the stock seemed overvalued.

(All prices are as of May 13.)

With only six stocks left, it was time for a more thorough study, checking revenue, earnings, and stock price trends; looking for unusual trading activity; reviewing Securities and Exchange Commission filings, and reading news stories.

Quest Diagnostics, the country's largest diagnostic testing company, looked like a long-term winner. It's in an industry expected to grow from demographics and a trend toward preventive care. Jet-manufactured Boeing saw revenues drop in 2000 and was expected to face sales pressures in 2002, but Valuepro considered it undervalued at its recent price of \$44.28. Brinker should

ONLINE INVESTING

STEP 2 Searching for Stocks

I used online screens to sift for promising stocks with low price to sales, above-average return on equity, and low long-term debt to assets. I even peeked inside the top funds to see what they liked. One stock that met all the financial criteria: restaurant operator Brinker International.

valueline.com, spoutlookonline.com (stock research)

quicken.com, multexinvestor.com (screens)

morningstar.com (fund holdings)

STEP 3 Vetting the Finalists

I used research reports and analyst consensus ratings to narrow the field. Then I studied the finalists using financial snapshots, SEC filings, and news releases. As a reality check, I ran contenders through a discounted cash-flow model to see if their price seemed reasonable. Among those that made the cut: Brinker, Quest Diagnostics, and Boeing.

starmine.com, finance.yahoo.com (analyst consensus)

multexinvestor.com (research reports)

edgarscan.pwcglobal.com (SEC filings)

chipmaker NVIDIA turned up on a shortlist.

Quicken is just one of a plethora of screeners out there. It's easy to use, lets you revise settings without starting from scratch each time, and provides a quick tutorial. Multexinvestor.com's screen is more complicated, but you can create and save your own screens.

Patterns began to emerge. Some of the stocks from my screens were recommended by Value Line or S&P. As a happy coincidence, several—like Jack in the Box and Office Depot—turned out to be held by mutual funds rated highly by Morningstar (www.morningstar.com).

While checking the two rating services, I added candidates like Quest Diagnostics, a growth stock that has already seen a healthy runup, and

from a trend toward quick, casual dining. Home Depot has run up in price on the continued strength in homebuilding, although it could be overvalued if the housing market slows. AutoNation appeared less lustrous on closer inspection, but S&P rated it higher than its current price of \$18.10. Jet was my wild card. The price dropped after earnings were raised about its accounting, but a company review found profits were actually higher than earlier reported.

I decided to forget biotech. It's too volatile, and Quest provides the desired exposure to the medical industry.

Thousands of stocks to choose from. In the end, it was a chore to find even six that sounded only sound easy.

Fidelity's Help for Mutual Fund Investors

It would be smart to copy this new tax-saving tool



BERT BARKER
businessweek.com

ing investors
identify
specific lots
shares to sell
they need
cash
mean
reduction
their
ills

Full disclosure: What follows is much nitty-gritty about mutual funds and taxes. This may be excuse enough for you to turn the page—if you don't mind paying Uncle Sam more in capital-gains tax than is necessary.

There's good news on this front. Minimizing tax bills has just become much simpler for a big bloc of fund investors. In April, the largest fund firm, Fidelity Investments, introduced Web tools that let fund holders pick which specific shares they want to sell and then go ahead and sell them online. Charles Schwab told me it offers this online service only to clients with at least \$1 million in assets. Beyond that, none of Fidelity's top rivals have something similar online.

If you're thinking, "So what?," chances are you have never tried to lower your capital-gains tax by using what the Internal Revenue Service calls "specific share identification." (For the deadly details, you can download IRS Publications 550 and 564 at www.irs.gov/forms_pubs/pubs.html or see the Jan. 28 *BusinessWeek* Investor section.) Selling funds this way is obscure and time-consuming enough that only a minority of investors know of it and even fewer use it. A good broker or adviser will do this for you. But do-it-yourselfers most often just tell the broker to sell enough shares to raise a given dollar amount. Then they usually rely on what's called the "average cost" method to figure their capital gain or loss. It's much easier, but it can be costly. Here's why:

Suppose you put \$10,000 into Fidelity Magellan Fund at yearend every year since 1992. After paying the 3% sales charge, and assuming you did not reinvest any dividends or distributions, you would have accumulated a total of 1,097 shares purchased in 10 separate lots.

Next, let's say you want to get \$50,000 in cash out of your holdings. Most people would simply ask Fidelity to redeem shares worth that much, which, at Magellan's net asset value on Apr. 30 (\$96.03), would have been 520.7 shares. With an average cost of \$91.19 a share, you

would realize a gain of \$2,521. At the 20% capital-gains rate, you would owe Washington \$504.

ONLINE

INVESTING

But what if you asked Fidelity to sell specific lots of shares you bought in the years when Magellan's price was high? To clear \$50,000, you could optimize your tax situation by selling most of the shares you bought in 1995, plus all from 1997 to 2001. Instead of a gain, you would realize a capital loss of \$8,261. And instead of owing tax, you could use the loss to offset capital gains from other assets. Or you could use up to \$3,000 of the loss per year to lower your ordinary income. If you pay tax at the 35% rate, that could cut your first-year taxes by up to \$1,050.

More investors don't use specific-share ID not only because they're daunted by finding their cost in what could be dozens of tax lots (Fidelity says its clients average 17 lots per fund), but also because most fund companies offer little help. The IRS requires documentation that you picked

	Shares Specified	Shares Available	Date Acquired	Purchase Price/Share	Lot Basis	Unrealized Gain/(Loss)	Holding Period	Cost Basis Source
1	30.0000	30.0000	04/10/1998	\$11.50	\$345.00	\$32.79	Long	Fidelity
2	35.0000	35.0000	05/30/1998	\$8.75	\$306.25	\$134.51	Long	Fidelity
3	14.4090	40.0000	02/01/1998	\$6.25	\$250.25	\$253.72	Long	Fidelity
4		50.0000	01/01/1998	\$5.67	\$283.50	\$346.15	Long	Fidelity
5		45.0000	04/01/2001	\$16.67	\$750.15	-\$183.47	Short	Fidelity
6		55.0000	02/28/2001	\$15.75	\$866.25	-\$173.64	Short	Customer
7		25.0000	05/30/2001	\$15.75	\$393.75	-\$78.93	Short	Fidelity
8		40.0000	03/15/2001	\$15.50	\$620.00	-\$116.28	Short	Customer

79.409 Shares Specified
+ 0 Unspecified Shares to be sold as first in/first out (FIFO)
79.4090 Total Shares Estimated to fill this Order of \$1,000.00

Preview Order Back

specific shares before the sale. In practice, that often means fund companies tell investors to make their specific-share sales requests in writing. So much for a do-it-yourself cybertrade.

For stocks, Fidelity has offered online sales by tax lot since November, 2000. It caught on: Specific-share ID sales jumped over 40% in December, 2001, over December, 2000. The other day, I watched a demonstration of Fidelity's new service for fund shares and then used a test account. There are many more features than I can describe here. But I came away impressed by its consideration of clients' needs (the database has tax lots back to 1987) and how clearly it explains so muddly a topic. It's a true leap ahead of the online pack.

Would I move a bunch of assets to Fidelity for this reason alone? Not tomorrow. But I am trusting in competition to drive Fidelity's rivals in this direction. Schwab and a few other firms say they are developing similar tools. I say, hurry up. ■

BusinessWeek online

For barker.online, go to www.businessweek.com/investor/ and click on "Columns"

IQ



Intelligence Quotient / abbrev: IQ

How smart is Sprint's 100% fiber-optic network? Ponder this. In the event of a break, the network heals itself, not in a matter of days or even hours, but in milliseconds. And our network can prioritize traffic — so critical information travels faster and arrives sooner, all while offering more ways to cut transmission costs. Our network boasts seamless interoperability between IP, Frame Relay and ATM platforms. And because it's built from the ground up as a single, totally unified whole (in other words not piecemeal) that integrates with our wireless network, it's faster and more reliable in rolling out new services. In fact, our customers will be among the first to take advantage of the latest 3G wireless technologies — letting them run data applications as easily on the road as in the office. Which is why many people are clever enough to sign up with Sprint. To get smart, visit sprint.com/fineprint

N A TEAR AT GALYAN'S



ENE G. MARCIAL

an's Trading
home runs
ortswear.
medical waste,
icycle is
of the heap.
r Downs
ing may be
for a buyout

Investment manager Roger Lipton loves consumer stocks. His impressive performance is proof that consumer shares are champs in this uncertain market—as they have been for three years. Lipton's hedge fund, RHL Associates, which invests in 25 consumer companies, is up 20% so far this year. For the three-year period ended Apr. 30, 2002—during which the Dow Jones industrial average fell 7.6% and the Standard & Poor's 500-stock index skidded 19.3%—RHL soared 110%, thanks to such stalwarts as Panera Bread (featured in this column on Nov. 26, 2001), already up 30% this year, and Ryans Family Steak Houses, which has doubled. Lipton scouts for underpriced consumer-driven mid-cap stocks. With consumer spending strong, he thinks such stocks will continue to shine.

Now Lipton is high on and has accumulated shares in Galyan's Trading (GLYN), a Plainfield (Ind.) retailer of sporting goods and apparel, with 28 stores in 14 states. The outlets are huge, each about 100,000 square feet, and generate, on average, annual sales of \$22 million sales per store, vs. \$7 million for Sports Authority, which operates 200 stores. Galyan's plans to open nine more stores this year.

Galyan's is a "category-killer, growing 25% a year in per-share earnings," notes Lipton. Galyan's went public at 19 on June 26, 2001, when The Limited spun off 60% of its stake. By Sept. 21, the stock had dropped to 8. It has since snapped back to 18.85, helped by The Limited's repurchase of some shares.

Lipton says that, based on 20 times estimated earnings of \$1.50 for the year ending Jan. 30, 2004, the stock is worth 30. Earnings in fiscal 2003 are expected to come in at \$1.15 to \$1.20 a share, vs. 89¢ in 2002. One of Galyan's strengths is its "classy operations," says Lipton. "It's like stepping into a Bergdorf Goodman for sportswear." Lipton expects the stock to attract more big investors as they search for "profitable, conservatively run but fast-growing companies."



CLEANING UP AT STERICYCLE

Three years ago, this column highlighted Stericycle (SRCL), then the second-largest U.S. provider of medical-waste-management services, trading at 18 a share. Investment pro Andrew Lanyi had a 12-month target of 30 for the stock. It has since quadrupled—to 73 on May 15—as Stericycle became No. 1 in the industry. Lanyi, who heads Lanyi



Research at CIBC Oppenheimer, still favors Stericycle and continues to own shares despite its runup and price-earnings ratio of 37, based on estimated 2002 earnings. He thinks it will hit 100 by yearend. "The company, 15 times the size of its nearest competitor, has become a virtual monopoly in a very profitable business," says Lanyi. No matter what the economy does, Stericycle continues to grow, he says. It collects medical waste from health-care facilities and carts it to 36 treatment centers where it is disposed of in accordance with environmental rules. Plenty of medical companies now outsource their handling of waste, driving Stericycle's customer roll to nearly 6,000 hospitals and clinics. Hemant Wadhwa at Lanyi Research sees earnings growing 20% to 25%. He sees revenues of \$396 million in 2002 and \$428 million in 2003, up from \$359 million in 2001. Wadhwa predicts earnings will reach \$1.97 a share in 2002 and \$2.32 in 2003, up from \$1.54 in 2001.

HANDICAPPING DOVER DOWNS

Hardly had Dover Downs Gaming & Entertainment (DDE) gone public than some pros started rumors that it was buyout bait. It operates Dover Downs Raceway, a harness track in Delaware; a nearby hotel and conference center; and an 80,000-square-foot video-lottery casino. Dover began trading on Mar. 18 on a when-issued basis at 10.50, prior to its spin-off by Dover Motor Sports on April 1. It's now nearly 14.

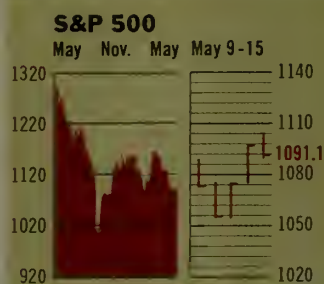
Adding to the intrigue: Investor Mario Gabelli owns 610,330 shares, or 6%, of Dover Downs—including 166,380 shares bought in mid-April. "Gabelli is noted for spotting undervalued media-and-entertainment companies," says Charles LaLoggia, editor of *SuperStock Investor*, which focuses on buyout bets. In an SEC filing, Dover said 43% of its stock was controlled by the John Rollins estate. Observes LaLoggia: "When a big chunk of stock is held by the estate of a founding shareholder, it often leads to a sale of the company." He expects operators, such as Magna Entertainment or Park Place Entertainment, whose unit, Caesar's World Gaming, manages Dover's casino, to make a move on Dover. It posted first-quarter sales of \$51.7 million, up from \$46.4 million a year ago. Earnings slipped from 21¢ a share to 19¢, due to adjustments as an independent outfit. First Call sees Dover earning 84¢ in 2002 and 94¢ in 2003. Dover did not return a call for comment.



BusinessWeek online

Read Gene Marcial's Inside Wall Street Online column Tuesday afternoons at www.businessweek.com/today.htm. And see him Fridays at 1:40 p.m. EST on CNNfn's *The Money Gang*.

Stocks



COMMENTARY

The S&P and Dow were on track to post their third good day in a row on May 15, until news of an uptick in inflation sent blue-chip stocks downward. But tech stocks and the Nasdaq kept on their roll: The three-day rally began when Applied Materials posted strong quarterly results, and said orders were still improving. All three indices ended the week in the plus column.

Data: Bloomberg Financial Markets
Bridge Information Systems, Inc.

U.S. MARKETS

	May 15	Week	Year to date	Last 12 months
S&P 500	1091.1	0.2	-5.0	-12.7
Dow Jones Industrials	10,243.7	1.0	2.2	-5.8
Nasdaq Composite	1725.6	1.7	-11.5	-17.3
S&P MidCap 400	544.5	0.9	7.1	6.3
S&P SmallCap 600	257.1	1.0	10.7	15.3
Wilshire 5000	10,367.7	0.4	-3.2	-10.0

SECTORS

	May 15	Week	Year to date	Last 12 months
BusinessWeek 50*	678.8	-0.1	-7.0	-23.1
BusinessWeek Info Tech 100**	350.9	1.3	-16.3	-28.3
S&P/BARRA Growth	550.4	0.0	-7.4	-11.0
S&P/BARRA Value	538.0	0.4	-2.5	-14.7
S&P Energy	219.3	-0.6	3.8	-11.6
S&P Financials	361.2	0.5	1.7	-3.9
S&P REIT	99.2	0.5	6.2	13.3
S&P Transportation	203.5	0.3	3.3	-2.8
S&P Utilities	136.8	-4.0	-6.2	-32.7
GST Internet	87.3	6.7	-16.8	-35.3
PSE Technology	619.1	2.1	-9.9	-16.6

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Internet Software	15.4	85.9
Forest Products	12.1	52.7
Oil & Gas Drilling	11.0	43.8
Specialty Appr. Retailers	10.9	42.2
Automobiles	10.3	36.6

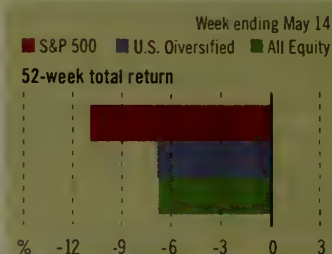
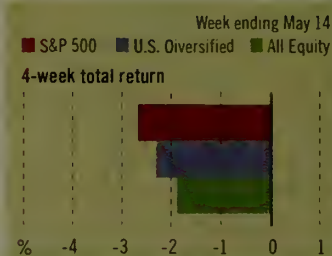
EQUITY FUND CATEGORIES

4-week total return	%	52-week total return	%
Leaders			
Precious Metals	15.3	Precious Metals	66.2
Natural Resources	3.9	Real Estate	18.2
Japan	2.3	Small-cap Value	16.7
Diversified Pacific/Asia	1.4	Diversified Emerging Mkts.	11.3
Laggards			
Communications	-8.4	Communications	-40.3
Latin America	-8.0	Technology	-31.1
Technology	-7.2	Japan	-25.0
Health	-6.4	Utilities	-23.8

EQUITY FUNDS

4-week total return	%	52-week total return	%
Leaders			
U.S. Glob. Wid. Prec. Mins.	21.4	First Eagle SoGen Gold	99.3
ING Precious Metals A	19.4	U.S. Glob. Wid. Prec. Mins.	86.0
Van Eck Intl. Invs. Gold A	18.8	U.S. Global Investors Gold	83.5
Am. Cent. Glob. Gold Inv.	18.6	Van Eck Intl. Invs. Gold A	82.7
Laggards			
Monry. M. N. Wid. Biotech.	-17.7	ING Global Commun. A	-62.3
Van Wagoner Post Venture	-17.3	INVESCO Telecomms. Inv.	-59.6
Van Wagoner Emerging Gr.	-17.0	Black Oak Emerging Tech.	-59.4
Reg. Opport. Oh.-Ind.-Ky. B	-16.9	Van Wagoner Post Venture	-57.0

Mutual Funds



Data: Standard & Poor's

GLOBAL MARKETS

	May 15	Week
S&P Euro Plus (U.S. Dollar)	1072.9	1.5
London (FT-SE 100)	5259.1	1.0
Paris (CAC 40)	4471.3	1.5
Frankfurt (DAX)	5072.4	0.9
Tokyo (NIKKEI 225)	11,643.0	1.1
Hong Kong (Hang Seng)	11,838.4	0.6
Toronto (TSE 300)	7707.0	0.0
Mexico City (IPC)	7402.8	-1.5

FUNDAMENTALS

	May 14	Wk
S&P 500 Dividend Yield	1.43%	1
S&P 500 P/E Ratio (Trailing 12 mos.)	45.7	4
S&P 500 P/E Ratio (Next 12 mos.)*	19.6	1
First Call Earnings Revision*	-0.04%	-0

*First Call Corp.

TECHNICAL INDICATORS

	May 14	Wk
S&P 500 200-day average	1122.4	112
Stocks above 200-day average	73.0%	7
Options: Put/call ratio	0.69	0
Insiders: Vickers Sell/buy ratio	4.06	4

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Multi-Utilities	-20.7	Multi-Utilities
Health-Care Supplies	-11.8	Computer Stge.
Constr. & Engineering	-11.2	Wireless Service
Computer Stge. & Perphs.	-10.7	Telecomms. Equ
Office Electronics	-10.2	Instrumentation

Interest Rates

	May 15	Week
KEY RATES		
MONEY MARKET FUNDS	1.52%	1.53
90-DAY TREASURY BILLS	1.75	1.75
2-YEAR TREASURY NOTES	3.32	3.31
10-YEAR TREASURY NOTES	5.25	5.22
30-YEAR TREASURY BONDS	5.73	5.67
30-YEAR FIXED MORTGAGE†	6.90	6.80

†BancQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt bonds, assuming a 30% federal tax rate.

	10-yr. bond
GENERAL OBLIGATIONS	4.39%
TAXABLE EQUIVALENT	6.27
INSURED REVENUE BONDS	4.46
TAXABLE EQUIVALENT	6.37

THE WEEK AHEAD

LEADING INDICATORS *Monday, May 20, 10 a.m. EDT* ► The Conference Board's April composite index of leading economic indicators probably remained unchanged. That's according to the median forecast of economists surveyed by Standard & Poor's MMS, a division of The McGraw-Hill Companies. In March, the index inched up 0.1%.

FEDERAL BUDGET *Monday, May 20, 2 p.m. EDT* ► The U.S. Treasury most likely registered a \$72 billion surplus in April, after

running a \$189.8 billion surplus in April, 2001. Increased government outlays and less tax revenue could mean a deficit of close to \$100 billion this fiscal year.

DURABLE GOODS ORDERS *Thursday, May 23, 8:30 a.m. EDT* ► New orders for durable goods are forecast to have increased 0.3% in April, following a 0.6% decline during March.

GROSS DOMESTIC PRODUCT *Friday, May 24, 8:30 a.m. EDT* ► The Commerce Dept.'s

second look at first-quarter economic growth is expected to show no real GDP growth, which was originally reported at 5.8%. Aftertax corporate income in the first quarter probably rose, reversing a string of five declines, including a 10.6% drop in the fourth

NEW RESIDENTIAL SALES *Friday, May 24, 8:30 a.m. EDT* ► New single-family home sales during April probably rose slightly, at an annual rate of 880,000 units, from 878,000 homes in March.

BusinessWeek Fifty

Nov.

May

Weekly

Daily: May 9-15

710

695

678.8

665

650

Spend
some
quality
time
with
your
money.

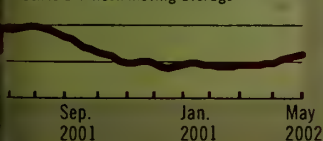
COMPANY PERFORMANCE

Company	% change		Rank	Company	% change	
	Week	Since 3/1/02			Week	Since 3/1/02
Johnson	-1.1	-1.1	26	Tenet Healthcare	-3.7	23.5
ic	1.0	5.4	27	Household International	-2.9	7.7
	-1.8	-10.9	28	WellPoint Health Networks	-4.6	17.0
	4.1	7.7	29	Washington Mutual	1.4	19.0
is	-2.7	1.8	30	Duke Energy	-0.5	2.5
	2.6	3.6	31	Kohl's	2.0	8.0
	0.6	2.2	32	Bed Bath & Beyond	1.5	7.5
	4.5	-2.7	33	Cardinal Health	-3.9	2.0
	-4.3	6.3	34	Centex	-2.3	-7.8
ceBergen	-0.2	12.1	35	American Electric Power	-2.4	2.3
th Group	-1.7	21.9	36	Golden West Financial	1.3	10.1
	-3.6	11.3	37	Stryker	-3.4	-12.2
ot	1.4	-6.0	38	Harley-Davidson	2.4	6.7
tores	0.7	-8.5	39	PepsiCo	1.1	3.4
	-25.1	-67.3	40	Merck	0.5	-7.2
namics	0.8	9.8	41	Apache	-2.3	6.9
troleum	-0.6	1.9	42	Amerada Hess	4.8	17.5
oratories	3.4	-2.1	43	KB Home	0.3	18.9
?)	0.2	-8.0	44	First Data	4.8	0.8
	-2.1	19.9	45	Tyco International	-2.2	-33.3
Petroleum	1.6	10.2	46	International Game Technology	3.1	-5.0
	-1.0	-5.7	47	Capital One Financial	3.1	30.9
es	-1.4	1.3	48	Electronic Data Systems	0.2	-6.5
Oil	-1.6	2.5	49	Nabors Industries	-5.7	23.6
	2.2	1.1	50	Xcel Energy	-19.5	-11.4

Production Index

Change from last week: 0.2%
Change from last year: -7.1%

AL OUTPUT May 4 = 161.9 1992=100
Index is a 4-week moving average



Index posted another gain during the latest calculation of the four-week moving average, inching lower, from 161.5 to 161.3. On a weighted basis, steel production showed the gains, while autos and crude-oil refining gains. Lumber and truck assemblies edged up, along with small drops in coal production. Electric power remained unchanged from the previous week.

For more information on the index components is at www.businessweek.com.
Production index Copyright 2002 by The McGraw-Hill

Online Resources

BW 50 Track the index and the companies in it all day long. Plus: our exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time market coverage and investment tools in partnership with Standard & Poor's.

MUTUAL FUNDS Search for funds, view BW ratings, and read Q&A's with fund managers.

COLUMNS Hot stocks, takeover plays, and the latest strategies for managing your money.

BusinessWeek online

For more investment data and the components of the production index, visit www.businessweek.com.



See inside

On-air weekend mornings.
Check your local listings.

www.businessweektv.com

Brought to you in part by:

savin.
WE'VE GOT WHAT IT TAKES TO WIN YOU OVER™

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABB 95
AbTech Industries 95
Adelphia
Communications
(ADLAC) 48
Advanced Micro Devices
(AMD) 40
Amazon.com (AMZN) 34
American Century
Investments 86
American Standard
(ASD) 84
Ameritrade (AMTD) 98
AMR Research 88
Angel Investors 82
Apple Computer (AAPL)
42
Applied Materials
(AMAT) 40
Archer Daniels Midland
(ADM) 14
Arthur Andersen 70
AstraZeneca (AZN) 44,
67
AT&T (T) 90

B

Banc of America
Securities (BAC) 40
Bank One (ONE) 48
Barksdale Group 82
Barr Laboratories (BRL)
66
Bayer (BAY) 58
Bear Stearns (BSC) 51
BEA Systems (BEAS) 88
Bechtel National 52
Bed Bath & Beyond
(BBBY) 103
Benchmark Capital 82
Bentley (VLKAY) 71
Bergdorf Goodman 107
Berkshire Hathaway
(BRK) 34, 38
Bertelsmann 48
BestCall.com 101
BigTrends.com 84
BioShield Technologies
95
BMW 71
Boeing (BA) 55
Bondsonline.com 101
BP (BP) 52
Brinker International
(EAT) 86, 103
BrokerageAmerica 98

Brown 98

Burnham Financial
Services Fund 84

C

Calpine (CPN) 38
Caterpillar (CAT) 84
CBSMarketWatch.com
101
Charles Schwab (SCH)
98, 105
Charter
Communications
(CHTR) 48
ChevronTexaco (CVX) 52
CIBC 40, 107
Cisco Systems (CSCO)
40, 114
Citigroup (C) 48
Cnet.com 101
Companyboardroom.co
m 101
Comroad 70
Core Capital Partners
82
CVS (CVS) 14

D

DaimlerChrysler (DCX)
70, 71
Dell Computer (DELL)
42
Delphi Management 40
Deutsche Bank (DB) 70
Dover Downs Gaming &
Entertainment (DDE)
107
Dover Motorsports (DVD)
107
DRI-WEFA 38
Duke Energy (DUK) 38
Dynegy (DYN) 38

E

eBay (EBAY) 24
Edison Schools (EDSN)
48
Electronic Arts (ERTS)
42
Eli Lilly (LLY) 66
Enron (ENRNQ) 20, 24,
34, 51, 114
Ernst & Young 70
E*Trade (ET) 98
Exelon (EXC) 38
Exxon Mobil (XOM) 52,
55

F

Fidelity Investments 98,
105
Fidelity Magellan Fund
(FMAGX) 105
Fifth Third Bank 34
FlowTex 70
Foliofn 86
Forest Laboratories
(FRX) 72
Fox Network (FOX) 51
Frank Russell 55
FXall 48

G

Galyan's Trading (GLYN)
107
Gap (GPS) 16
General Electric (GE) 34,
114
General Motors (GM) 66,
67, 71
Giordano 16
Golden State (GSB) 84
Goldman Sachs (GS) 40,
105
Goodyear Tire (GT) 84

H

Halliburton (HAL) 52
Harrell & Associates 46
Hewlett-Packard (HPQ)
25, 42
Hilton (HLT) 46
Home Depot (HD) 107

I

IBM (IBM) 88
IDC 42
Ilyushin 55
Intel (INTC) 40, 95
Intellon 25
Interactive Brokers 98

J

Janus Funds 105
J.P. Morgan Chase (JPM)
48, 72

K

Kana 82
KazMunigas 52
Knight Trading 98
Kontiki 82
KPMG 51
Kurzweil Technologies
92

L

Lands' End (LE) 48, 103
Lernout & Hauspie 70
Linksys 25
Lipha 72
Loomis Sayles 40

M

Mandalay Resort (MBG)
46
Marriott International
(MAR) 46
McDonald's (MCD) 52
McGraw-Hill (MHP) 108
MechVisual 95
Mercedes-Benz (DCX)
71
Mercer Human Resource
Consulting 67
Merck (MRK) 44, 66, 67,
72
Merrill Lynch (MER) 40,
71, 98, 105
Microsoft (MSFT) 34, 42,
48, 88, 101
Mirant (MIR) 38
Morgan Stanley Dean
Witter (MWD) 34, 72,
98
Morningstar 84
Multex.com (MLTX) 103
Mylan Pharmaceuticals
66

N

Napster 48
Navellier 86
Neiman Marcus (NMG.A)
103
New Power 38
Newmont Mining (NEM)
52
Next Software 92
Novartis (NVS) 58
Novell (NOVL) 88

O

Occidental Petroleum
(OXY) 16
Oracle (ORCL) 40, 42,
88

P

Panera Bread (PNRA)
107
Papa Johns
International (PZZA)
103
Paramount Studios 72
PeopleSoft (PSFT) 40

Petroleum Finance 52
Pfizer (PFE) 67, 72
Pier 1 Imports (PIR) 103
PJM Interconnection 38
Porter Novelli 68
PPL EnergyPlus (PPL) 38
Priceline.com (PCLN) 48
PricewaterhouseCoopers
70

Primerica (C) 48
Procter & Gamble (PG)
34
Pulte Homes (PHM) 84
PwC Consulting 38

Q

Quicken.com (INTU) 103
Quicktest 14
Qwest Communications
International (Q) 90

R

Recordati 72
Reliant Resources (REI)
38
Renaissance Capital 52
Reuters (RTRSY) 101
RHL 107
Robertson Stephens
(FBF) 44, 72
Rödl & Partner 70
Rolls-Royce (VLKAY) 71
RWE Nukem 52
Ryans Restaurant 107
Rydex Funds 84

S

Sanford C. Bernstein
(AC) 44
Sankyo Pharma 72
SAP (SAP) 70
Save-on Drugs 14
Schering-Plough (SGP)
48
Scottrade 98
Sears Roebuck (S) 48,
103
Sector Rotation Fund 84
Siebel Systems (SEBL)
40
Sonicblue (SBLU) 25
Sony (SNE) 48
Sovereign Bank 84
Sports Authority (TSA)
107
Standard & Poor's
(MHP) 34, 36, 46, 103,
108, 114

Starwood Hotels
Resorts (HOT) 4
Stein Roe Young
Investor (SRYIX)
Stericycle (SRCL)
Sukhoi 55
Sun Microsystems
(SUNW) 88

T

TD Waterhouse
Technology Busi
Research 42
The Limited (LTD)
Thomson Financ
Call 34, 114
Toshiba 95
Toyota (TM) 24
T. Rowe Price 98
Trump Casinos 3
Tuesday Morning
107

Tyco Internationa
34

U

UBS (UBS) 14, 4
Universal Studios
U.S. Bancorp Pip
Jaffray (USB) 88
U.S. Venture Part

V

Value Line (VALU)
Vanguard Group
105
Vcall.com 101
Venture Econom
Verizon
Communications
67
ViewWriter Techn
82
Vivendi (V) 46
Volkswagen (VLK)

W

Walgreen (WAG) 1
Wal-Mart Stores (C)
42
Warner-Lambert (C)
72
Washington Mutu
(WM) 84
Williams 38

X

Xerox (XRX) 51, 70

Y

Yahoo! (YHOO) 10

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. rate \$54.95/year; Canada: CDN \$69/year. Periodicals postage paid at New York, N.Y., and at additional offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO. 803

It may be the only vacation where you come back richer.

INVESTMENT STRATEGIES



Ken Shea

Managing Director
Standard & Poor's

Gain a unique market perspective through the influential S&P 500 index and the favorite sectors and stocks from S&P's team of analysts.

ECONOMIC FORECASTS



Seymour Zucker

Senior Editor
BusinessWeek

Hear views on the economy and benefit from insights acquired from decades of economic and market coverage.

PROFITABLE PORTFOLIOS



Phil Edwards

Managing Director
Standard & Poor's

A review of S&P's current mutual fund recommendations as well as how to make them part of a highly profitable portfolio.

Investment Seminar at Sea

Aboard the award-winning Crystal Symphony 11-day luxury cruise, Nov 20 to Dec 10, 2002.

Visiting Tortola, St. Maarten, St. Barts, Aruba, Costa Rica with Panama Canal transit.



BusinessWeek

**STANDARD
& POOR'S**

Limited Space.
For reservations,
call toll-free
1-866-468-5700.



Deluxe Stateroom with Verandah

Deluxe Staterooms
start at \$2,795 per person*

Deluxe Staterooms with Verandah
start at \$4,310 per person*

SEMINAR REGISTRATION FEE
only \$495 additional per person
or \$895 additional per couple



GREAT AMERICAN TRAVEL

Call toll-free 1-866-468-5700

businessweek.greattravel.com

*Taxes including port charges based on double occupancy. Call for airfare add-ons. Seminar only available with cruise purchase. All categories subject to prior sale. Ship's registry: Bahamas

MARKETPLACE

For Ad Rates and Info
Phone: (312) 464-0500
Fax: (312) 464-0512

Luxury Bedding

Call toll free, or fax 1-859-514-4423
1-888-732-0763TEMPUR-PEDIC
PRESSURE RELIEVING
SWEDISH MATTRESS AND PILLOWThe sleep miracle that's
recognized by NASA,
praised by the media,
extolled worldwide
by 25,000 sleep clinics
and health specialists.

FREE SAMPLE/FREE VIDEO/FREE INFO

© Copyright 2002 by Tempur-Pedic, Inc., 1711 Jaguar Fox Way, Lexington, KY 40511

You must feel it to believe it!

WEIGHTLESS SLEEP
starts with Tempur-Pedic.

Apparel

SIERRA TRADING POST

Your In-Home

OUTLET MALL®

Clothing, Footwear & Gear

FREE catalog 1-800-713-4534

SierraTradingPost.com

Please mention Key Code BW302

Education/Instruction

Get Your MBA
Through Distance Learning

- Prestigious British University Accredited Under Royal Charter
- One of the World's Largest Distance Learning MBA Programs
- All Necessary Study Materials Provided
- Access To On-Line Facilities
- Support From Local Resource Centers and Student Networking
- Flexible Financing & Payment Plans Available

Call Today: 800-874-5844
or visit www.rdi-usa.com

rdi

ABSOLUTELY FREE
EVALUATIONBachelor's -- Master's --
Ph.D. DegreesBased on life and work experience.
Confidential -- Fast -- Student
Loans. www.arcc.org

800-951-1203

DISTANCE LEARNING

BA, MBA, MA, Doctoral Degrees
Business, Psychology and LawSouthern California University
for Professional Studies

1840 E. 17th Street, Santa Ana, CA 92705

Since 1978

Education Loans Available

(800) 477-2254

WWW.SCUPS.EDU

Discount Travel

Las Vegas/New York
Discount Hotel Rates
Up to 65% Off!
Book Online @
hoteldiscount.com
1-800-310-4821
170 CitiesAS SEEN ON
CNNHOTEL
RESERVATIONS
NETWORK

Business/Career Oppor

Become a

equipment leases • Factori
loans of ALL types • No experience neBUSINESS FINA
CONSULTAN

SEE FOR YOU

Visit us at www.viewTLC.com whe
money is as easy as receiving you

RECEIVE A COLOR INFO KI

AND FREE VIDEO SEMINA

The Loan Consultants, Inc
since 1983

CALI

800-336-39

SIX FIGURE POTEN
FROM HOME (part/full c26-year-old internatio
multi-billion dollar techn
company with 5A1 D&B raFor details on our internet b
marketing approach, vis

www.myaautomaticbiz.co

Sales Promotions/Pren

DIAL AN IDI

Ideas to Boost
and Motivate Productivity

MOTIVATE YOUR CUSTOM

to spend more money with
quality, nationally recognized
brand incentives. Variety of
options including airfare, lan
cruise programs, as we
Merchandise and Rebate c
Visit www.spirit-incentives.c
call 1-800-860-5880 Ext. 130.

Business Services

Sales Leads & Mailing

Business Lists--14 million busines
Select by geography, sales volume, business type
name, credit rating, and moreConsumer Lists--266 million cons
Select by age, income, home value, and moreCustomer Analyzer/Prospect Buil
Analyze your customers & find prospects just ne
Free analysis & 25 leads at infoUSA.com

01-BWK 1-800-555-5335

Need a Logo

mylogo Get a Profes
Custom De
LOGO TO

Visa/MC/Amex

Toll-Free: 1-888-869-5

www.1800mylogo.com

MARKETPLACE



Plan

Budget

Report

Analyze

Success today depends on your ability to quickly respond to change. That requires accurately measuring performance, identifying trouble spots, and having the flexibility to adjust budgets and plans as needed. It's an ongoing process calling for a constant flow of timely, accurate data. Is your current business information system up to the challenge?

Comshare offers a single software application to help you implement, execute, measure and adjust your plans and actions faster and more effectively. Comshare enables you to model multiple business scenarios with the click of a mouse, use that information to allocate resources in support of strategic initiatives, and analyze online data and results immediately for quick response to change. By closing the gap between strategy and performance, Comshare business software delivers maximum ROI.

comshare.com/bw

Visit our website to receive a copy
of our ROI white paper.

8 0 0 . 9 2 2 . 7 9 7 9



Software to help companies implement and execute strategy.

A GOOD IDEA ABOUT EARNINGS

There was a time when the American accounting system was the envy of the world. Its transparency, uniformity, and credibility allowed investors to make intelligent comparisons among U.S. corporate earnings statements. It encouraged millions of average people to invest, thus transforming America into the world's first mass equity culture. But Enron and other accounting scandals, customized and managed pro forma earnings, and growing doubts about Wall Street's veracity have combined to deeply undermine people's belief in the basic honesty of the financial system.

Fortunately, help may be on its way. While the Financial Accounting Standards Board dithers, ratings agency Standard & Poor's is putting forth a tough new measure of corporate earnings that goes a long way toward improving U.S. financial reporting. FASB, the Securities & Exchange Commission, the New York Stock Exchange, Nasdaq, chief executives, and—most important—Wall Street investment houses, would do well to take the S&P proposal seriously. It offers them a road map to restoring investor confidence. Shortcomings in the proposal need to be discussed, but it should not be ignored (page 34).

Standard & Poor's (owned, along with *BusinessWeek*, by The McGraw-Hill Companies) is proposing a new measure of core earnings that would, among other things, eliminate three popular financial strategies that companies use to bolster their numbers. Core earnings would expense stock options as regular compensation (which could hit high-tech companies pretty hard); exclude pension gains (which could hit large industrial companies with big pension funds); and include restructuring charges from ongoing operations while excluding gains and losses from asset sales (which could hurt big companies trying to smooth out earnings gains over time).

This is dramatic stuff. Under the Standard & Poor's core

earnings measure, Cisco Systems Inc., for example, have had a bottom-line loss of 35¢ a share in fiscal 2001 instead of its reported 14¢ loss. Expensing of options would lower Cisco's EPS by 21¢. Earnings at General Electric Co. drop to \$1.11 in 2001, from \$1.41, mainly by eliminating big gains from pension income. Both companies quickly criticized the S&P proposal—too quickly.

There are almost as many measures of earnings to choose from as there are companies. Pro forma has destroyed any means of measuring performance across industries and the broad economy. It has allowed analysts, investment bankers, and CEOs to join in gaming the system to push profits higher, contributing to the scandals of recent months.

The biggest effect of the new Standard & Poor's earnings measure may be on valuation, rather than earnings itself. Under core earnings, the EPS multiple for the S&P 500 stock index would surely rise from 22. The worry is that if investors believe a higher multiple makes the market more valuable, they would sell. But they just might not. Stripping away pension gains and other fake earnings flows would increase the overall quality of earnings, making them more valuable and perhaps worthy of a higher multiple. In the end of the day, the level of earnings may decline, but valuations could easily rise. Of course, core earnings would be more volatile, but they would also be more genuine.

Boosting the integrity and standards of the financial markets is a critical imperative. Standard & Poor's has taken a bold step in suggesting a methodology that makes strides toward restoring uniformity, clarity, and reliability to Corporate America's financial statements. It will follow through by incorporating its core earnings measure into the S&P 500 index and its analysts' company ratings. Regulators, analysts, and CEOs would do well to embrace it or something like it.

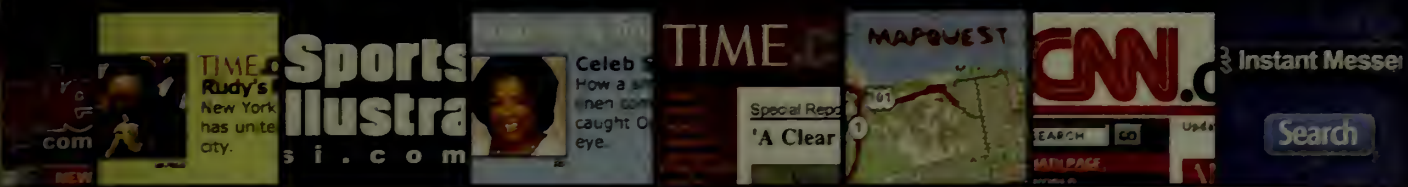
DEREGULATING ENERGY THE RIGHT WAY

Deregulation is a new dirty word. Memos from Enron Corp. show how electricity traders manipulated the newly deregulated California market. We now know that California power suppliers shut off their plants to artificially limit supply. After promising to lower consumer prices while increasing capacity and flexibility for producers, deregulation now appears to be nothing more than a rigged game run by market insiders. So let's go back to government-controlled utilities, right?

Wrong. There are successfully deregulated power and electricity markets operating in New York and Texas. PJM is a regional market for Pennsylvania, New Jersey, and Maryland. But these states differ from California in two ways: Their rules give suppliers incentives to sign long-term contracts at

stable prices, and they have regulations governing the trading of electricity that curb traders' more egregious manipulations of the market. California, on the other hand, is a playground for delinquent traders and suppliers and has acted out, costing consumers billions of dollars (page 35).

All markets need rules to work, even deregulated ones. By lobbying regulators, and others were able to remove electricity trading from all traditional oversight. Even if trading has more regulation. Congress must end this. It also should set up regional power grids to expand supply and increase flexibility. Finally, the Federal Energy Regulatory Commission has to do its job, stepping in when power generators create false scarcities. If the public trust isn't quickly restored, energy deregulation will go from dirty to dead.



ALL THIS AND MORE AT NETSCAPE.COM

News from CNN. Scores from Sports Illustrated. The latest from Entertainment Weekly, People and InStyle. Plus Instant Messenger, MapQuest, weather, search and email. The list goes on and on. See for yourself.

Visit the **new** Netscape.com today.



Netscape.com™

All the net you need

© 1998 Netscape Communications Corporation. All rights reserved. Netscape and the Netscape logo are the registered trademarks of Netscape Communications Corporation. All other trademarks are the property of their respective owners. All rights reserved.



HORSEPOWER: 255





BusinessWeek

02

www.businessweek.com

STING
CALL
RUNNING
STEAM?

ED
NANCIAL
H AT
DOOLS

DE
O:
MAN TO
SCUE?

OUNTING
CONOMICS
FORM

COM
SIDE
OF
PE'S 3G
LE

SCHWAB VS. WALL STREET

With the
big firms
reeling,
Charles
Schwab is
pushing to
win over their
disgruntled
investors

PAGE 64



BXBBD0D *****CAR-RT 10T**C030

LBRLP000097 1#302

BURLINGAME

|||||

MAY 28 2002

BURLINGAME PUBLIC
80 PRIMROSE RD
BURLINGAME CA

LIBRARY

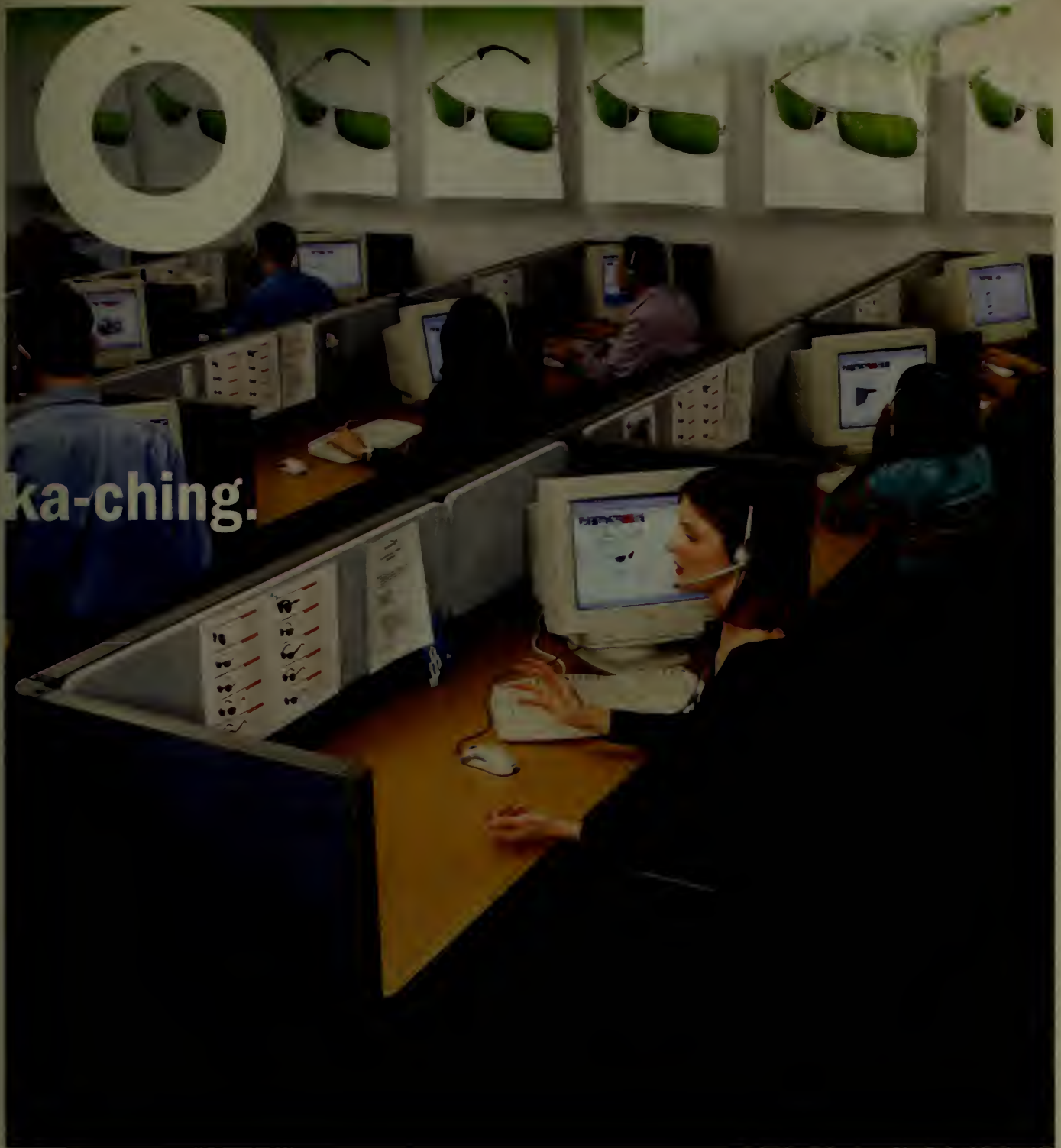
Reis-



1° of separation between chitchat

When software lets you quickly capitalize on new customer opportunities, that's **business** with .NET. Talking about what customers want is one thing. Discovering exactly what they want and deriving revenue from those wants, of course, is the real goal. .NET connected software from Microsoft

Nasdaq.com, looking to grow both site traffic and online revenues, will use .NET connected software from Microsoft to send customized alerts to their customers about the latest market and economic developments — anywhere, on any device. And they have the ability to create this innovative new service from scratch in just two months.



ects you with all your customer touch-points via the Web, so you have comprehensive, real-time
mer information that can be used to develop ideas for new products and services, and bring
to market quickly. That's one degree of separation. That's business with .NET. Find out how .NET
ected software can help you use the Web to drive revenue in new ways.

microsoft.com/enterprise Software for the Agile Business.

Microsoft

Is your broker's idea of
an investment plan a never-ending
series of hot stock tips?

There's never been a better time for Schwab Private Client.

With a Schwab Private Client Consultant, you get advice based on research and facts, not hype. They'll also take the time to study your financial needs so you can get buy and sell recommendations based on what's good for your portfolio, not your broker's wallet.

With Schwab Private Client, you'll develop a one-on-one relationship with an experienced Private Client Consultant who'll listen to you and your goals and help you develop and implement an investment plan. They'll also provide you with our Schwab Equity Ratings™, a simple way to help you decide what to sell as well as what to buy.

Your personal Private Client Consultant will help you stay on top of your portfolio. Assist you in keeping updated on the status of your investments. And help you stay on track over the long term, all for a simple fee.

In other words, you'll have someone who understands the market and is on your side. Someone you can trust. And, of course, their advice is based on the principles of Schwab.



JAMIE WALTER
SCHWAB PRIVATE CLIENT CONSULTANT

THE PRINCIPLE OF THE INDIVIDUAL INVESTOR

From day one, the individual investor has been at the center of what we do. Every investor is important to us. We're not focused on investment banking. We represent you, the individual investor.

THE PRINCIPLE OF ADVICE NOT DRIVEN BY COMMISSION

Individual broker commissions can undermine relationships. That may bias the advice

you're getting. Our Investment Consultants' compensation is based on their service to you and assets at Schwab, not commissions. It always has been. And always will be.

THE PRINCIPLE OF OBJECTIVITY

At Schwab, we're not focused on investment banking. For example, we make IPOs available but we don't receive any compensation for their distribution. To us, it's a potential conflict of interest. We always strive to avoid conflicts of interest in everything we do. This is at the heart of our values.



To find out how a one-on-one relationship with a Schwab Private Client Consultant may be right for you, call 1-866-804-4859, and you can also receive our complimentary brochure.

charles SCHWAB

Call	1-866-804-4859	Click	schwab.com	Visit	400 locations nationwide
------	----------------	-------	--	-------	--------------------------

Schwab Private Client is a service of Charles Schwab & Co., Inc. Member SIPC/NYSE. Accounts are nondiscretionary brokerage accounts, and advice about your securities portfolio is part of our brokerage service. ©2002 Charles Schwab & Co., Inc. All rights reserved. (0502-8403). ADS23344SPD.

We develop innovative pharmaceuticals for the treatment of cardiovascular disease

So that life stays in full

Everyone wants to fully enjoy life for as long as possible. But despite medical progress, cardiovascular diseases are still a major cause of death. At Aventis, a world-leading pharmaceutical company, we offer a number of effective therapeutic pharmaceuticals for the acute and long-term treatment of cardiovascular disease. And our research teams utilize the latest technologies for the development of innovative pharmaceuticals to help improve the life of cardiovascular patients. So one can enjoy life more fully.

Aventis, Strasbourg (France), is listed on the stock exchanges in Paris, Frankfurt and New York. www.aventis.com

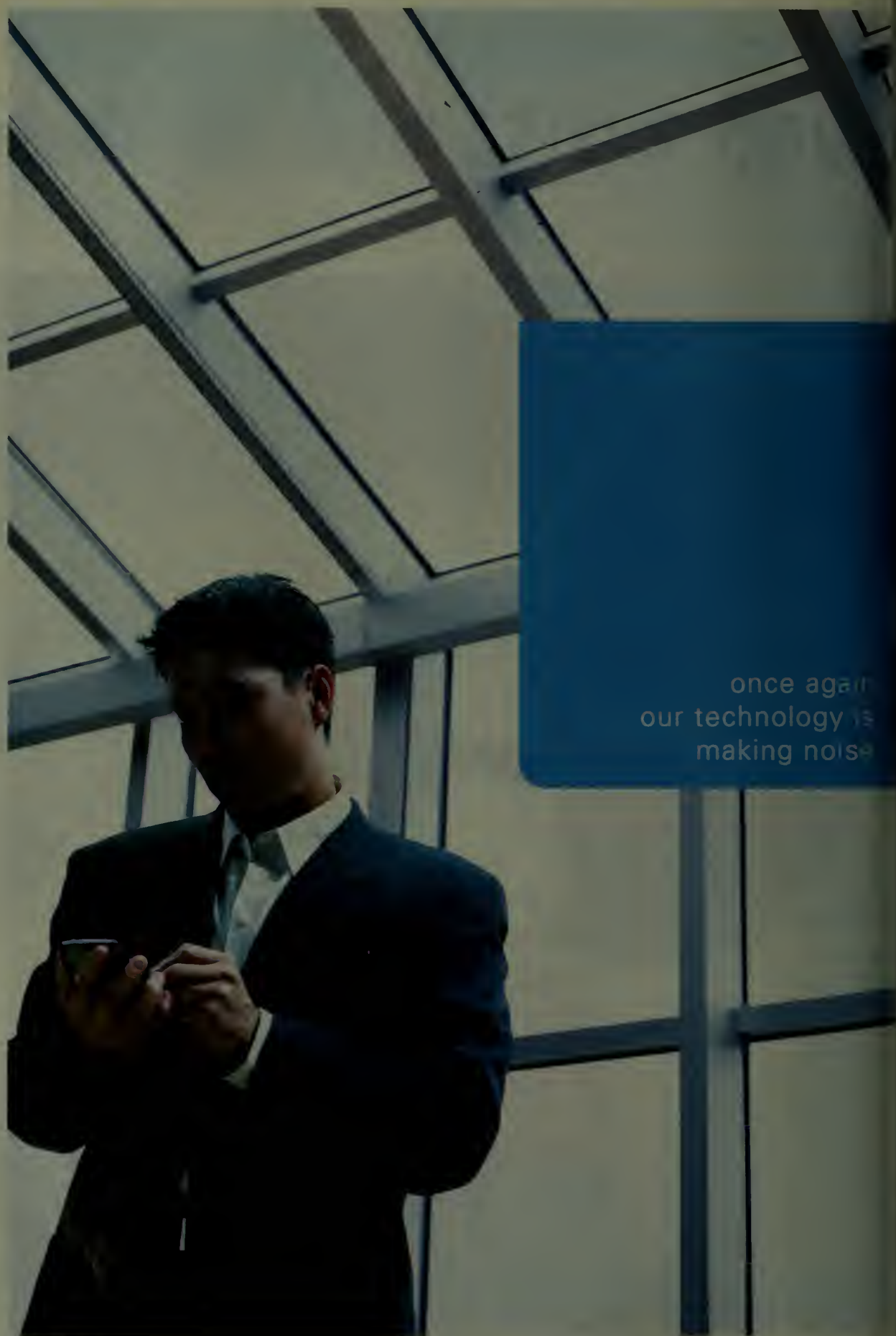


ving.



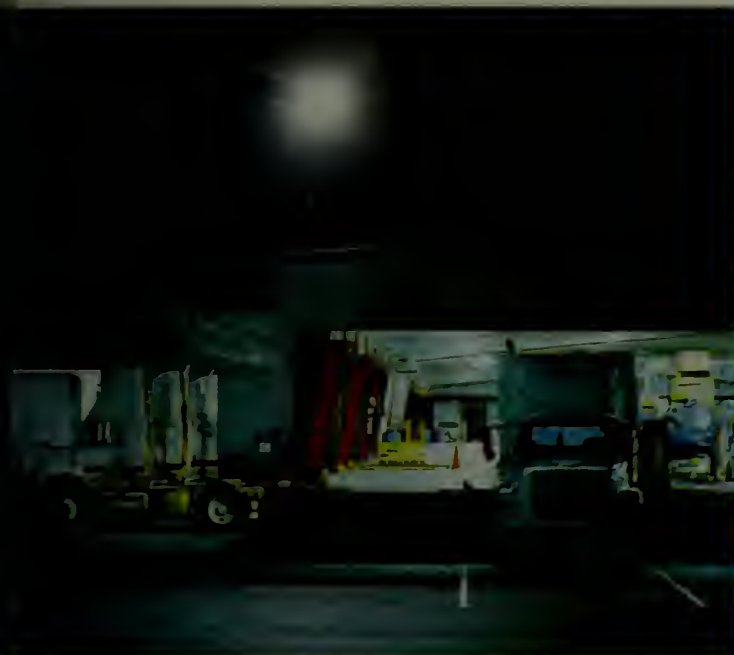
Our Challenge is Life





once again
our technology is
making noise

© 2002 Palm, Inc. All rights reserved. Palm Net is a registered trademark and Palm and the Palm logo are trademarks of Palm, Inc. or its subsidiaries. Other products and brand names may be trademarks or registered trademarks of their respective owners.



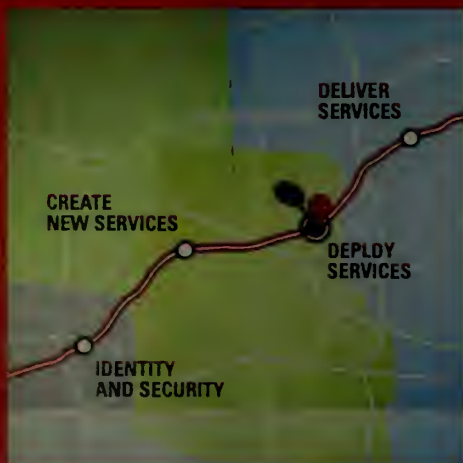
It's just happening in
remote warehouses.

Once again, people are talking about Palm innovations. Only this time, it's at companies building solutions for their enterprise. Like streamlining order fulfillment. Or mobilizing sales forces. Or simplifying access to information. Along with leading solutions providers that include BEA,

IBM, McKesson, and Siebel Systems, Palm delivers mobile solutions that work hard for today's businesses. For more information on how we've helped deliver results, visit our site at palm.com/enterprise and read our customer success stories and total cost of ownership white paper.



**NO SERVICE
NEXT 96 MILES**



Solaris Operating Environment

The fast road to deploying Java[®] and XML-based services quickly and reliably.

On the road to Web services,
**a system
breakdown is
an invitation for
the buzzards.**



Sun[™] ONE

Open Net Environment

Reports from the road: Virgin Atlantic Airways.

The Solaris Operating Environment ensures that applications for Virgin Atlantic Airways – from Web-based frequent flier information to mission-critical flight operations – are easily manageable and readily available.

Reports from the road: Wingcast.

Thanks to Wingcast, cars will soon be equipped with wireless safety, communication and convenience services. Anticipating millions of wired vehicles to come, Wingcast wisely chose the Solaris 8 Operating Environment for its scalability and reliability.

Sun's associates for the ride.

Sun teams with some of the best systems integrators in the business providing the knowledge and experience you need to help you deploy your Web services on the Solaris platform today: Cap Gemini Ernst & Young, Deloitte Consulting, EDS, KPMG Consulting, Inc. and PricewaterhouseCoopers.

Act now to get your
free copy of Solaris 9 OE on DVD.

www.sun.com/solarisdvd

Offer valid while supplies last.

Keep your services engine running on all cylinders with the Solaris[™] Operating Environment.

Once you get your Web services built, you're ready for the big road test: deployment. It doesn't matter how bulletproof your Web services are if they don't work all the time or if they're not secure. The Solaris[™] OE is a secure, reliable way to protect your Web

services investment and your hard-earned reputation for dependable service. Solaris, supporting many of the largest Internet businesses, is the foundation of Sun[™] ONE and provides a rock-solid application platform for any kind of Web service.



COVER STORY

STREET FIGHTER

Discount broker Charles Schwab makes his biggest bet yet—on the burned clients of his discredited white-shoe rivals **page 64**



BusinessWeek

JUNE 3, 2002

Cover Story

64 SCHWAB VS. WALL STREET

Charles Schwab is waging war against Wall Street. He's launching a major campaign to capture midmarket customers—with nearly \$11 trillion in investments—from white-shoe rivals rocked by scandal. The lure? Squeaky-clean financial advice from a firm with no investment banking arm. Pummeled by a big drop in revenues since the tech bust, Schwab badly needs to win this bet

70 COMMENTARY: RATING STOCKS

Will Schwab's low-hype rating system make stock-picking attractive again?

72 COMMENTARY: MERRILL LYNCH

The firm got away with a slap on the wrist from New York's AG

News: Analysis & Commentary

34 WHO DARES TO RAISE PRICES?

Few companies, actually—a problem that's taking a toll on bottom lines

36 INSURANCE: THROUGH THE ROOF

Some commercial rates are tripling

37 COMMENTARY: INFLATION

A slight uptick, giving companies back a little pricing power, wouldn't be the worst thing in the world

38 COMMENTARY: TRADE

Is Bush giving away too much for his free-trade agenda?

40 TELECOM: RIPE FOR VULTURES

Buyers of distressed bonds are circling some of the fallen giants

40 FUNDS TAKE A TELECOM HIT

Big bets by Alliance, Wellington, and others haven't paid off

42 GEMSTAR WARS

News Corp. titan and part-owner Rupert Murdoch is out for blood

43 COMMENTARY: IBM

When will Big Blue finally get smart about its chip business?

44 A BLOW TO SCHOOL CHOICE?

What Edison's woes mean to the privatization movement

46 IN BUSINESS THIS WEEK

International Business

48 TALE OF A BUBBLE

After spending billions at wireless auctions, Europe's telecoms are high and dry and loaded down with debt. Here's what happened

53 INTERNATIONAL OUTLOOK

France: More grim days for Left?

Economic Analysis

26 ECONOMIC VIEWPOINT: TY

The farm bill is a disaster; damage goes far beyond i

30 ECONOMIC TRENDS

Federal spending isn't as seems; dismal days for unboomers; expensive urban

31 BUSINESS OUTLOOK

U.S.: Housing is steady at Britain: On inflation alert

Government

47 WASHINGTON OUTLOOK

The White House's new al detract from its missed sig

62 SOUTHERN CO.: LOBBYING

With Enron gone, it's a heavyweight in Washington

The Corporation

56 LOWE'S SPRUCES UP ITS H

By targeting women, it air regain the home-improvement crown from Home Depot

GRAVITY
is holding
profits, too



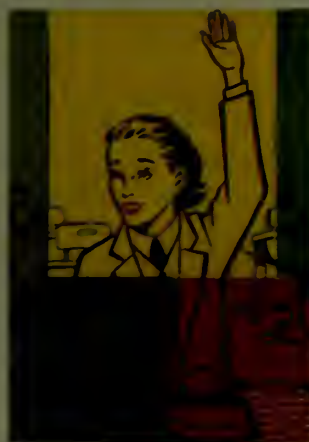
SURVIVORS

The remaining
Big Four accounting
firms won't lack for
profits page 74



BAD CALL

How Europe's
savviest
phone giants
bet their
futures on
3G—and lost
page 48



NO BARGAIN

Small-cap funds:
Nowadays, it's hard
to distinguish value
from growth page 86



SPIN CITY

Can a former
radio mogul get
AOL in shape?
page 58



EXEC-ED PINCH

As companies
cut back, B-schools
are suffering
page 80

TEAMWORK

Grid software
harnesses the
power of small
computers page 82

NEW SPIN

Former radio wizard Jimmy de
rescue the ailing online
unit?

Business

ING FOR CASH—AGAIN

ng the Series doesn't pay the
or the Arizona Diamondbacks

ng

TIE-INS: THE PARTY'S OVER

marketers are forgoing the
sive Hollywood campaigns—
gling for better deals

IMAGE, BRIGHT FUTURE

ems that will emerge from
ndersen shakeout won't lack
ofits or opportunities

& Technology

LOPMENTS TO WATCH

ights from the latest cancer
rchers' conference: Vaccines,
, and radiated glass beads

78 BATTLE FOR A BLOCKBUSTER

Genentech's new cancer drug:
Promising, but far from approval

Management

80 TAKING A BITE OUT OF B-SCHOOLS

Less exec-ed income means
canceled classes and tuition hikes

The Workplace

81 NURSING: ON THE CRITICAL LIST

An acute shortage of RNS threatens
to cripple U.S. health care

Information Technology

24 WILDSTROM: TECHNOLOGY & YOU

Hang on to your CD player for now

82 NEXT BIG THING IN COMPUTING?

Grid technology allows users to
boost their power by sharing

BusinessWeek Investor

86 NOT MUCH VALUE IN SMALL CAPS

Small-cap value funds are awash in
cash, with no place to go. It's time
for investors to reassess

88 BUCKING A WEAKER BUCK

Lock in today's exchange levels

89 AND THE PASSWORD IS...

Software can help recall your PINs
and protect them from theft

90 LASER THERAPY FOR YOUR FACE

Photorejuvenation can painlessly
erase blemishes—for a price

92 HERS: TODDI GUTNER

A meeting of powerful women
yields some good ideas

94 THE BARKER PORTFOLIO

Three steps the SEC can take on
behalf of individual investors

97 DER HOVANESIAN: INSIDE WALL ST.

Features

14 UP FRONT

18 READERS REPORT

19 CORRECTIONS & CLARIFICATIONS

22 BOOKS

McDonald: *A Ghost's Memoir: The
Making of Alfred P. Sloan's My
Years with General Motors*

98 FIGURES OF THE WEEK

100 INDEX TO COMPANIES

102 EDITORIALS

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

BusinessWeek online

Free to Subscribe

Go to www.businessweek.com and follow the instructions to register. Be sure to have an account number that appears on your BusinessWeek magazine.

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ NEW MATH:

Sam Stovall of Standard & Poor's explains its revised method of calculating corporate earnings



■ E-BROKER BARGAINS:

BW's Lewis Braham highlights some good deals for investors who trade online



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your handheld! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the June 3, 2002, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/02_22/online.htm

Going Mainstream

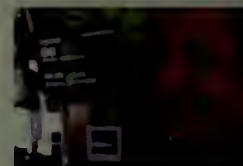
Linux, the open-source software, is quickly gaining momentum in computing, and more and better programs now run on it. But will a real business model ever evolve?



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Commentary: CEO Christos Cotsakos' outsize compensation could be a symptom of greater corporate-governance issues at E*Trade



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Street Wise: Telecom-equipment maker JDS Uniphase's strategy for long-term growth. It just has to get past its current batter-

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Savvy Selling: Learning more about yourself can help you connect—and sell—to customers better



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Clicks & Misses: Renting DVDs online from Netflix sounds cumbersome—until you try it



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

MBA Journals: Here's how you can become part of BusinessWeek Online's select group of MBA student-writers

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

European Journal: Rising prices are jeopardizing a recovery, as ECB may be forced to hike rates—despite the howls

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Ask Careers: What's the obstacle when an out-of-work top executive can't find the right job in nearly a year?

BusinessWeek tv

FOR PROGRAM DATES AND TIMES IN YOUR AREA GO TO WWW.BUSINESSWEEKTV.COM

TUNE IN THIS WEEKEND FOR:

Customer Service: How satisfied are you?

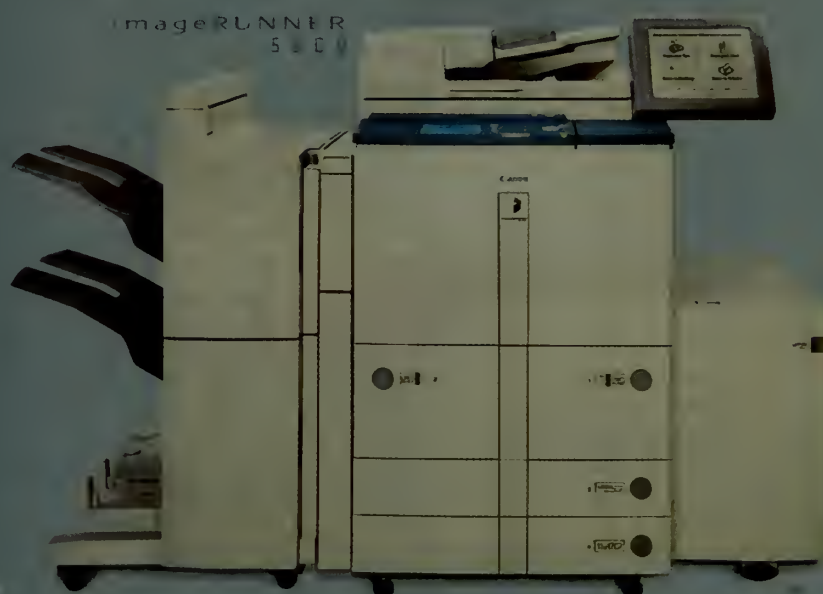
High marks for airlines?

The future of home technology

imageRUNNER™



A box that delivers paper documents anywhere overnight?
Or a box that delivers them instantly over the internet?



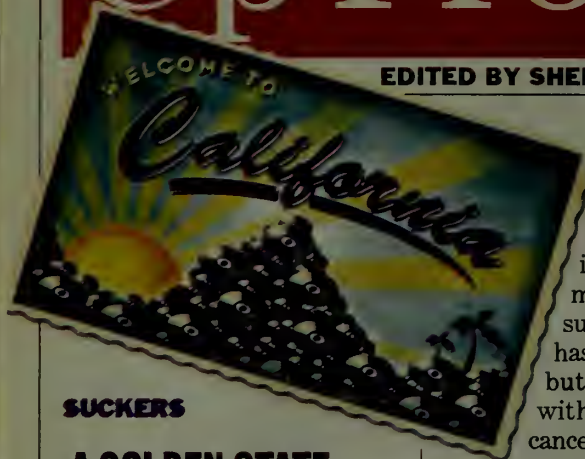
The Canon imageRUNNER with document distribution technology. You can send paper documents anywhere, in any form, at anytime, right over your network or the internet. Instantaneously. Simply scan a document into the imageRUNNER 5000, and you can send it to any desktop, e-mail address, fax machine, database or file server. And since the Canon imageRUNNER is capable of integrating directly with your existing e-mail, lanfax, and document management software, you can maximize your investment in these systems*. The cost and hassle of overnight delivery are finally over. At Canon, we're giving people the know-how to make paper documents work in an internet world.

Call 1-866-25-CANON or visit www.imagerunner.com

Canon KNOW HOW™

Up Front

EDITED BY SHERIDAN PRASSO



SUCKERS

A GOLDEN STATE INDEED FOR ORACLE

ENRON ISN'T THE ONLY company that has caused trouble for California. Add Oracle to the list. The famously aggressive software maker is accused of persuading California to blow \$95 million on high-end business software, much of which the state doesn't need.

Compounding the scandal, dubbed Oraclegate, is that California signed the deal without taking bids—and that an Oracle lobbyist contributed \$25,000 to Governor Gray Davis' reelection campaign just two weeks later. Davis

says he'll return the money; his opponent, Bill Simon, is making it a major election issue. Oracle says it has done no wrong, but is negotiating with the state to cancel the contract. A state official who failed to figure out the state's needs resigned, and another was suspended.

Software consultants interviewed by *BusinessWeek* say California at least got a huge volume discount. Problem is, it doesn't need all that volume. The cost of the excess software: \$41 million, according to a state auditor's report. Yet this is a common mistake, the consultants say. "Companies write bad contracts with software vendors all day long," says Joshua Greenbaum at Enterprise Applications Consulting. "Why should the state be any different?" Tell that to the taxpayers. *Jim Kerstetter*

CONSUMER BUZZ

FEWER PIRATES, HIGHER PRICES

AS CHINA BECAME THE workshop of the world, it earned a more dubious honor: global center of counterfeiting. When it came to prospering from others' patents, few could top China's manufacturers of DVD players. Its factories exported more than 10 million of them in 2001 without paying royalties to the companies that own the intellectual-property rights. That left the likes of Sony, Philips Electronics, and AOL Time Warner fuming. But it's been good news for consumers, as prices of DVD play-

ers dropped as low as \$70.

Now, there are signs that the Chinese are relenting—and that means prices could creep back up. After years of negotiations, Beijing tentatively agreed in April to pay six companies—Mitsubishi Electric, JVC, Toshiba, Hitachi, Matsushita, and AOL Time Warner—royalties of several dollars per exported DVD player. The biggest distributor of Chinese-made machines, Apex Digital, also agreed to pay a few dollars per machine to Sony, Philips, and Pioneer. China's recent joining of the World Trade Organization may have been an impetus.

Consumers can expect higher prices by Christmas.

Bruce Einhorn

A DVD AVALANCHE

CHINESE DVD PLAYER EXPORTS IN MILLIONS



TALK SHOW "We sincerely regret that there were instances in which certain of our Internet sector research analysts expressed views that at certain points may have appeared inconsistent with Merrill Lynch's published recommendations." —Merrill Lynch, on its \$100 million settlement with New York's attorney general

WORKPLACE WOES

YUCK!

HERE'S A GOOD GROSS-OUT statistic—your desktop is 400 times dirtier than a toilet seat. And your phone is even worse. That's according to Chuck Gerba, a professor of microbiology at the University of Arizona who wanted to find out just how dirty our offices really are. He took 7,000 samples from several hundred workstations in New York, San Francisco, Tucson, and Tampa last summer.

Even he was surprised at the results. The phone receiver: an average 25,000 bacteria per square inch. "People slobber on that," says Gerba. The desktop: 21,000 bacteria per square inch. "People spill coffee and eat their meals there, and nobody cleans it. Or they just use a wet towel that spreads things around," he

says. The keyboard: 3. And the average office toilet seat? Just 50. "People use infectant to clean that," explains. New York offices where workers tend to eat at their desks, are the worst.



Receptionists' desks, where lots of people pause daily, are the worst areas of all. "People need to think about cleaning," says Gerba, "or they end up with a bacteria cafe on their desks."

THE LIST BERMUDA-BOUND?

Congress is proposing legislation to halt the recent wave of U.S. companies reincorporating in Bermuda to lower their taxes:



COMPANY	LOCATION	STATUS
COOPER INDUSTRIES tools, electrical products	Houston	Shareholder-approved; company expects to move by May 21
LEUCADIA NATIONAL financial services	New York	Shareholder-approved, but company is still considering tax consequences
NABORS INDUSTRIES oil drilling	Houston	Board of directors-approved; shareholder vote scheduled June 14
STANLEY WORKS toolmaker	New Britain, Conn.	Shareholder-approved, but because of complaints about voting, the company will hold a second vote
WEATHERFORD INTERNATIONAL oil services	Houston	Board of directors-approved; shareholder vote expected this summer

Data: *BusinessWeek*



salesforce.com

#1 CRM. No Software.

CRM Technology of the Year



► Infoworld 1/31/2002

Best CRM 2002



► Software & Information Industry
Association Codie Award 4/16/2002

5 Stars out of 5 Stars 2001 & 2002

"An Overall Rating of Excellent"



► PC Magazine

Salesforce.com
Salesforce.com, Inc.

Top 10 CRM Installations 2001 & 2002



► Aberdeen Group

4,500 enterprises use salesforce.com to manage their CRM worldwide.
Last year we added more CRM customers than Siebel, SAP, PeopleSoft and Oracle combined.

► See for Yourself – Sign up for a **FREE Test Drive** Today!

Visit **www.salesforce.com** and enter code DA0603.

You can always call us at **1.800.NO SOFTWARE.**



Up Front

PET POWER

TRUST-FUND BABIES WITH WAGGING TAILS

PATCHES AND CHELSEA ARE two golden retrievers set for life. They'll inherit \$10,000 a year if their 50ish Florida owners Bobbie and John Ford die before them. The Fords created a trust fund to care for their beloved dogs under a law passed this May by Florida legislators.

Florida is following seven other states, including New

York and California, that let pet owners create caretaking trusts for their animals. The idea is so hot that Representative Earl Blumenauer (D-Ore.) has introduced a bill to make the trusts legal nationwide. (There's no Senate sponsor yet.)

Blumenauer wants to legitimize what many pet owners—including celebrities such as Oprah Winfrey, Betty White, and the late Doris Duke—have already done. In most states, leaving money to pets is not enforceable under law, so other heirs can challenge it.

Nearly 30% of the nation's 64 million pet owners mention animals in their wills anyway, according to Blumenauer's research. "People see pets as part of the family," says estate attorney Barbara Buxton, who set up the Fords' trust. Earning trust money, it seems, is a walk in the park. *Charles Haddad*

REALTY

IT'S OUR CO-OP... AND OUR RULES

A MANHATTAN HIGH-RISE recently became the first U.S. residence to ban smoking by new owners. But New Yorkers live with an array of other restrictions that may seem bizarre elsewhere. About 82% of privately owned Manhattan apartments are co-ops, where dwellers buy a share in a property, giving owners remarkable power over who else gets to buy in and how the buildings are run. Corcoran Group, a leading New York real estate company, has compiled the more unusual rules at some co-ops. Among them:

- Dog owners must submit a pooch's obedience-school certificate with application.

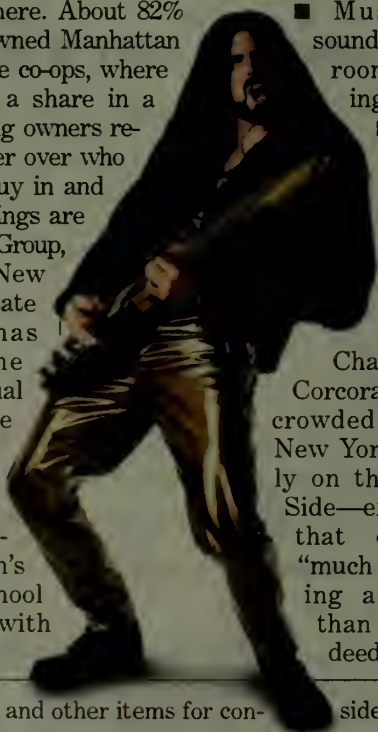
- Owners can use the elevator, but renters must use the stairs.

- Nannies may only use the elevator if children in their care are with them.

- Musicians must soundproof a practice room before moving in.

- Bathtubs cannot be replaced, even if the rest of the bathroom is being renovated. And no whirlpools.

Chairman Barbara Corcoran explains that crowded living makes New Yorkers—especially on the Upper East Side—extra fussy and that co-op life is "much closer to joining a country club than getting a deed." *Diane Brady*



DRAWN & QUARTERED



DOT-COMA

FROM FAST TIMES TO FAST FOOD

WHEN VENTURE REPORTER magazine wanted to celebrate publication of its annual list of the top 100 venture capitalists on May 14, it sought an appropriate venue. Champagne would flow as it did at the dot-com bashes of a bygone era, but the locale needed to reflect the more chastened mood and the party's "back to reality" theme.

That's how hundreds of VCs and high-tech CEOs (what's left of them, anyway) found themselves at a rented McDonald's in Midtown Manhattan. There, they scarfed down Quarter Pounders and belled

up to a bar near the through window. Champagne cocktails commemorated famous dot-com icons, the McKozmo, named after defunct delivery service kozmo.com ("deliver me an hour," the motto) and the McBlodgett, for bullish analyst Howard Strong buy recommendation.

"Starting a party is not about Aeron chairs," said Nobu and said Venture Reporter founder party host McCabe Ca. "It's plywood and McDonald's."

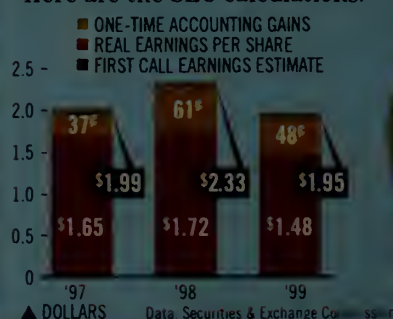
But the attendance weren't down their sorrows. Instead, they talked up how it's time to be investing in ups that can be had. *McBargain. Amy*



THE BIG PICTURE

THE EARNINGS GAME

The SEC charged that Xerox used one-time accounting gains—some fraudulent—to inflate earnings. Xerox, admitting or denying guilt, paid a \$10 million fine to settle. Here are the SEC calculations:



Polls, surveys, and other items for consideration in this section should be sent to upfront@businessweek.com

BMW
Certified
Pre-Owned

bmwusa.com
1-800-334-4BMW



The Ultimate
Driving Machine

ified curve seeker

ified grin maker

ified driving purity

ified throttle response

ified go!

ified Pre-Owned BMW



ed only at an authorized BMW center.

ty protection* up to 6 years or 100,000 miles. Get flexible leasing and financing options. Get pure BMW.

≡ Certified Pre-Owned ≡
by BMW

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS:
 Joyce Barnathan, Frank J. Cornes, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Amst, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Peter Elstrom, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Margaret Popper, William Wolman, Seymour Zucker (Sr. contributing eds.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Semill (Sr. ed.); Robin Ajello, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Dan Beucke, Diane Brady, Nanette Byrnes, Arty Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khermouch, Julia Lichtblau, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: David Rocks. E-Business: Timothy J. Mullane. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Spencer E. Ante, Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowy. News: John Protos. People: Susan Berfield. Personal Finance: Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports business)
STAFF EDITORS: Lewis Braham, Jeanette Brown, Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Tim Belknap, Aleta Davies, Doug Royalty (Sr.); Giles Blunt, Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Malka Percal, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Nigel Cruickshank, Jamie Elsis, Edith Gutierrez, Ron Pymman (Asst.). Graphics: Joan Danaher (Director); Bob Doyle (Deputy dir.); Laurel Daunis Allen, Joe Calviello, Roger Kenney, Stephen Kenney, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Nita Le, Rich Michiel, Leo Nietter, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper, (Assoc.); Lucy Conticello, Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burte Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.). Karen Butcher, Francisco Cardoza, Thomas R. Dowd, Stephen R. Lebron, Kim Maenak, Jose L. Martin, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Y. Steve Ben-Ari, Steven McCarthy, Anoop Srivastava, Craig Sturges, Mauro Vaisman
ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorff, John Johnson, Will Andrews, Heather Barry, Jaime Beauchamp, Jane Kelly, Joleen Colpa, Tony Cracolice, Roger Franklin, Brian Hindo, Brian Kelly, Olga Kharif, B. Kite, Matt Kopit, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Amey Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj, Eric Wahlgren, Heesun Wee
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad, Aixa Pascual. Boston: William C. Symonds (Mgr.), Faith Keenan, Geoffrey Smith. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Julie Forster, Pallavi Gogoi, Darnell Little. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), Joann Muller, David Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmer (Sr. correspondents), Ariene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Himelestein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O.C. Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Borms, Dan Carney, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woelert, Catherine Yang, Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geni Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.), Stephen Baker, Carol Matlack, Andre Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Inhan. Singapore: Michael Shan (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Robert Pondiscio (Director), Heather Carpenter, Christine Fountaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director), Susan Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

MAIN STREET IS WISE TO WALL STREET'S WAYS ...

"How corrupt is Wall Street?" (Cover Story, May 13) is delightfully informative. My conclusion was succinctly stated by Felix Rohatyn: "If Wall Street knows what is good for it and what is good for this country, it will very definitely clean up its act."

Much of the blame can be placed on how firms supervise their brokers and respond to customer complaints. I have yet to be involved in a securities arbitration where the brokerage has said: "Sometimes things don't go the way they are supposed to. Mrs. Smith has a legitimate claim, and we'd like to settle her loss in full without hassles and delays."

While most brokers and brokerage firms can be proud of their customer relationships, some cannot. It is the latter who have given customer securities lawyers full employment. Fortunately, the National Association of Securities Dealers and the New York Stock Exchange arbitration panels recognize that for the retail securities industry to exist, the public must believe that the dispute process is fair and that legitimate claims will be fully compensated.

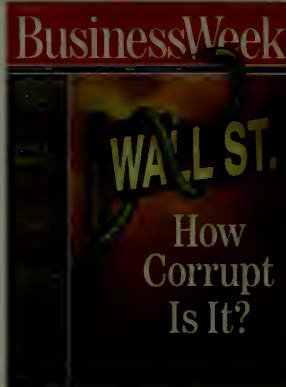
Lawrence Elkus
 Farmington Hills, Mich.

Editor's note: The writer is an attorney with a securities law practice.

"How corrupt is Wall Street?" Extremely! As a former broker, I can tell you the corruption is pervasive, down to the branch managers and brokers. The managers and vice-presidents think they are exempt from prosecution.

When they are served with subpoenas they laugh and send them to the legal and compliance department. Often they will do nothing to fix the system because they receive override commissions for all of the commissions earned by brokers in their office or region. Speeches and posturing will not fix this problem. Tough laws will.

Brian N. Medina,



The real story is the financial pressure inflicted on the well-meaning, hard-working "old-line" stockbroker over the last 25 years. Doing business the old-fashioned way has become a sin. If brokers would not move a part of their clients' assets into separate accounts and individual stock and bond positions) into the firm's

proprietary mutual funds, they were fine. Those very rare brokers who showed true character and resisted this unjustified robbery have been way too quiet.

Bill Miceli
 La Jolla, Calif.

Surely the CEO of Merrill Lynch & Co. knows his company has failed to "live up to the high standards that define our tradition" these many years. This unsophisticated investor has expected this in view of the turkeys that have been recommended to him.

Joseph L. Hu
 Arlington, Va.

...AND HERE'S HOW THE INDUSTRY HOPES TO CLEAN UP ITS ACT ..

"How corrupt is Wall Street?" To note the constructive changes in the securities industry made du

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VPS, SALES: Mark A. Flinn (Northeast region and BWT), Karen Christiansen (Southeast reg.), Grant A. Getz (Midwest reg.), Robert J. Maund (West reg.)

VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maravall
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carr
VP, STRATEGIC PLANNING: Kimberly Greer
VP, STRATEGIC PROGRAMS: Jim Richardson
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, MARKETING: Patricia Crocker France
VP, CONSUMER MARKETING: Joyce Swingle

The McGraw-Hill Companies

BusinessWeek
 JUNE 3, 2002 (ISSN 0007-7135) *** 3785
 Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).
 Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039, Intl. 2960127039. U.S. subscription rate: \$54.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies/back issues, \$9.95. Call 1-800-298-9877 or e-mail: busweek@mh.com. Subscriber Service: 1-800-635-1200. TDD: 1-800-554-1579.
 Postmaster: Send address changes to BusinessWeek, P.O. Box 52325, Boulder, CO 80522-3225. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Registered for GST as The McGraw-Hill Companies, Inc. GST #R123075673.

Copyright 2002 by The McGraw-Hill Companies, Inc. All rights reserved. registered in U.S. Patent Office. European Circulation Center, Met House, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 9500.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, President, and Chief Executive Officer; Kenneth M. Vittor, Executive President and General Counsel; Robert J. Bahash, Executive Vice President, Chief Financial Officer; Frank D. Pengelase, Senior Vice President, Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$1.00 per copy of each article. Send payment to CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address reprint requests to The McGraw-Hill Companies, Inc., 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135. PRINTED IN THE U.S.A.

at year. Last June, the Securities Industry Assn. endorsed Best Practices Research. These practices incorporate governance policies to ensure the integrity of research, including reporting lines that separate investment banking and research departments; plain-English recommendations; disclosure of any financial ties analysts and/or their firm have with the company that is the focus of an analysis; and practices that base an analyst's compensation on a broad range of factors, including the performance of recommendations—but not specific investment banking transactions. The report was ratified on Capitol Hill, outlining other industry initiatives.

As a result, a large number of Wall Street firms changed their organizational structure or policies to make research more independent, objective, and useful. The industry has worked hard to address the perceptions about the independence of analysts.

Earlier this year, at the urging of the Financial Services Committee Chairman Michael Oxley (R-Ohio), committee member Richard Baker (R-La.), the Securities & Exchange Commission Chairman Harvey L. Pitt, the self-regulatory organizations proposed rules that address the major issues concerning analyst conduct. These rules, passed on May 1, are tough. Analysts cannot sell securities they are telling investors to buy. Relationships that securities firms have with the company they are covering must be fully disclosed. Research reports show how the analyst's recommendations have performed over time. These and other requirements will help investors with more transparency and more information. While some of these provisions may go too far, I miss the mark, we support the rules by the New York Stock Exchange and the National Association of Securities Dealers, which have the authority of law.

U.S. markets remain the world's most in integrity, transparency, liquidity and depth. Last year, U.S.-based companies raised more than \$3.4 trillion in U.S. markets, which helped to start our stalled economy. More recently, in the past month, we've unveiled education initiatives, most notably on our Web site (siainvestor.org), to help investors learn as much as possible about corporate finance.

We are fully committed to doing whatever it takes to maintain and enhance investors' trust and confidence in the markets and our industry.

Marc E. Lackritz
President
Securities Industry Assn.
Washington

...ALTHOUGH MANY WOULD PREFER MORE DRASTIC STEPS

The simplest solution: Compensate stockbrokers and mutual funds according to the profit earned, not the asset value under management.

Leslie Reed
Vancouver

Instead of restricting what analysts can do and adding more regulations, require analysts to put most of their own money into a trust fund—one that follows each analyst's published recommendations.

Bruce E. Lutz
Nashua, N. H.

Politicians created the monster, in part, through the gutting of the Glass-Steagall Act. If lawmakers and regulators truly want to reform, they should consider removing the incentives that promote bad behavior on an institutional level by eliminating the investment banks' ability to be compensated for financial advisory services if they are to be engaged in raising capital.

Richard F. NeJame
Spring Lake, N. J.

WALL STREET SHOULD REREAD THE BIG BOARD'S RULE BOOK

As a former New York Stock Exchange member firm supervisory analyst, I read the article on New York State Attorney General Eliot Spitzer with interest ("Trying to build a wall on Wall Street," *News: Analysis & Commentary*, Apr. 29). While reading the research generated by any number of firms from 1998 to 2000, I was certain that NYSE Rule 472 ("Communications with the Public") had been removed from the syllabus.

A review of the exchange's Web site, however, disabused me of that notion. Perhaps the public-relations pickle that firms now face would have been mitigated had they re-read the rule on a yearly basis, particularly those sections dealing with exaggerated and misleading statements.

Jack Walton
Short Hills, N. J.

COCA-COLA'S ACCOUNTING: 'OPEN AND TRANSPARENT'

We were surprised by the headline for your story about Coca-Cola and its bottling partners ("Has Coke been playing accounting games?" *Finance*, May 13). Both we and Coca-Cola Enterprises have been open and transparent in all of our financial reporting. You reference a change in how marketing payments are

CORRECTIONS & CLARIFICATIONS

"Can Mr. Soft Money rescue the Dems?" (*Government*, May 20) should have said that illegal foreign contributions were made in 1996 to the Democratic National Committee, not to the Clinton-Gore campaign. Current DNC Chairman Terry McAuliffe, as finance chairman of Clinton-Gore until early 1996, was not implicated in the DNC scandal. Also, while McAuliffe was a consultant to Global Crossing's founder and chairman, Gary Winnick, he was not a consultant on Global Crossing. He was an early investor.

"Your inner musician is just waiting to be found" (*BusinessWeek Lifestyle*, May 13) misidentified Roy Ernst. He is director of New Horizons Music Project and a former professor of music education at the University of Rochester's Eastman School of Music. He is not a former director of the Eastman School.

In "More options for options traders," which appeared in some editions of the May 27 *BusinessWeek Investor*, the phone number for Wall Street Access was incorrect. The number is 800 925-5781.

made to Coca-Cola Enterprises by Coca-Cola Co. As CCE disclosed several weeks ago, the Securities & Exchange Commission agreed that the way CCE had been doing it was acceptable. At their recommendation, CCE changed to an accounting method that the SEC felt was preferable.

Further, you [mischaracterize] Coca-Cola's "marketing support" payments to its bottling partners as subsidies. These payments are agreed-upon contributions the company makes to pay for joint marketing programs. They support activities that increase sales of Coca-Cola products, and so directly benefit our company and our bottling partners.

Sonya H. Soutus
Director of Corporate Communications
Coca-Cola Co.
Atlanta

SEEING THE AT&T-COMCAST DEAL IN A DIFFERENT LIGHT

Robert Kuttner's diatribe ("AT&T and Comcast: A bad deal for almost everybody," *Economic Viewpoint*, May 20) has so many factual errors and blatant distortions that one has to wonder whose political ax he was grinding. In comparing what AT&T paid for TCI and MediaOne with what it is getting from Comcast for AT&T Broadband, Kuttner ignores TCI and MediaOne nonstrategic assets that AT&T has since sold. The net

Readers Report

cost was more like \$60 billion, nearly \$40 billion less than he claims.

Kuttner says AT&T overpaid for cable systems but offers no evidence. In fact, on his chosen measure, AT&T paid about \$4,100 per cable subscriber. Comcast at the time had a market value of about \$6,500 per subscriber. Because we purchased those cable systems to expand beyond their video offerings, an even more pertinent measure would be the cost per household passed. On that metric, we paid about \$2,400 per household—far less than contemporaneous deals, which ranged from \$3,500 per household (Charter/Falcon) to \$4,600 per household (Comcast/Lenfest).

Kuttner claims that AT&T Chairman Mike Armstrong "never executed the synergy strategy," ignoring, among other things, that AT&T Broadband has more telephony customers than any other cable company—more than 1 million. In fact, AT&T Broadband's combined telephony, high-speed data, and digital-video growth leads the industry. About 6 million of our cable customers have purchased a bundle of services.

Kuttner overstates AT&T Comcast's share of the U.S. cable market. Combined, AT&T and Comcast have about 21 million subscribers—a lot, but far less than "40%" of the 72 million homes that subscribe to cable.

Kuttner also overstates Armstrong's total compensation. Anyone who cares to read our SEC filings will see that Armstrong's cash compensation in 2001 was about \$5 million. In addition, he received about \$800,000 for performance in prior years. Finally, he was granted about \$4 million in restricted stock that will not vest until 2004, plus options on about 1 million shares that will vest at various times over the next four years. While our proxy sets the Black-Scholes value of those options at about \$7.5 million, the strike prices are higher than AT&T's current share price. In fact, according to *BusinessWeek's* own compensation survey, Armstrong's pay is well below that of most of his peers in the telecommunications industry.

Further, there is nothing "suspicious" about the deal. Our news releases and proxy lay it all out. The Robertses' voting power will be less than it is now and lower than at most other family-founded cable companies. AT&T shareowners will have 61% of the vote and 55% of the economic interest in the combined companies. The majority of the directors on the new board will be unaffiliated with the Roberts family. The merger of AT&T Broadband and Comcast is in the best interests of both com-

panies' shareholders and will bring much-needed choice in local phone service to more than 38 million households passed by its cable systems. The new company's telephony footprint will have national reach, and its scale will allow it to develop and deploy new broadband applications such as video-on-demand and high-speed data.

Finally, long-distance revenue is declining across the industry, but few would call our consumer profit margins—26% of revenue last quarter—"slender." In fact, they are more than six times better than our largest competitor's. After AT&T Broadband spins off and merges with Comcast, AT&T will have one of the strongest balance sheets in the industry, with debt *BusinessWeek* itself has estimated at \$17 billion, far less than major competitors worldwide. And while stand-alone long distance will continue to shrink, last year the new communications-services businesses we invested in grew at double-digit rates, and AT&T Business got more than half of its revenue from nonvoice services for the first time in its history.

It's easy—and even popular in some quarters—to take gratuitous swipes at CEOs like Mike Armstrong who have to make tough decisions without the benefit of 20-20 hindsight. But Armstrong anticipated the capital crunch that would hit the telecom industry and restructured AT&T into businesses that could stand on their own. It was not a popular decision at the time, but because he made it, AT&T shareowners, customers, and employees are far better positioned than those of our competitors.

Richard J. Martin
Executive Vice-President
AT&T
Basking Ridge, N.J.

Editor's note: We agree that the net cost for TCI and MediaOne was much less than the \$97 billion cited by Kuttner, but AT&T has not disclosed enough information to make a precise calculation of how much of an offset there was from asset sales. Some analysts believe AT&T lost at least several billion dollars on its original investment, especially if capital investments are added in.

In saying that on a cost-per-cable-subscriber basis, AT&T paid double their market worth, Kuttner relied on research from Consumer Federation of America. BusinessWeek believes that AT&T paid a much more modest premium.

As for synergies, yes there are some. But we believe the record shows that AT&T itself set higher expectations for its synergy strategy than Martin's letter suggests.

We agree with Martin that a combined AT&T and Comcast would have about 21 million subscribers, including AT&T's 25% share of Warner Entertainment's cable business. Kuttner included the Time-V stake in his market share calculation.

There are many ways to calculate compensation. BusinessWeek's survey of Armstrong's total pay in 2001 was \$5 million. This does not include the value of any unexercised options granted or earlier, nor any stock appreciation rights—worth millions more, depending on the valuation used. The \$17.2 billion cited by Kuttner, which came from a 10-K statement, included stock appreciation rights. Kuttner erred in describing million options awarded to Armstrong as additional compensation in 2001. Kuttner should also have clarified the \$32 million valuation he placed on million options granted in 2002 as that AT&T's stock would increase 10% a year over the 10-year life of the op-

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives starting in 1991 are available on the World Wide Web at www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

All letters must include an address and daytime or evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in electronic and print editions.

Mail: *BusinessWeek*, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

Fax: (212) 512-6458

Email: bwreader@businessweek.com

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>
(click "Manage Your Account")

For individual subscriptions, corporate subscriptions, and other inquiries:

Phone: (800) 635-1200 Fax: (641) 842-6101

Email: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

Email: bw_group@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

Email: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use, \$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

Email: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm

BREAK OUT



Go beyond black and white. Get stunning color that's surprisingly affordable with the Xerox Phaser 8200 printer. There's a new way to look at it.

Every idea you hatch can look brilliant. Printing at only \$1499,* the Phaser® 8200 color printer offers rich, vibrant color and crisp black and white at up to 1200 dpi — all at a surprisingly low cost per page. Just as attractive as its low cost is its high speed. With an industry-leading first-page-out of only



9 seconds and 16 ppm full color, the Phaser 8200 is faster than 90% of today's office printers. What's more, it's just one of a full line of office printers designed to help your business break out and sparkle. For more information, call 1-877-362-6567, ext.1879 or visit xerox.com/officeprinting/egg1879

THE DOCUMENT COMPANY

XEROX.

© 2002 XEROX CORPORATION. All rights reserved. Xerox, The Document Company, Phaser and there's a new way to look at it are trademarks of Xerox Corporation. All other marks are the property of their respective owners. *Retailer price may vary. Based on current market data only. Reproduction by Photo Copy Release. Some restrictions may apply. Color may vary. Consult your Xerox representative for more information. Xerox and the Xerox logo are registered trademarks of Xerox Corporation.

A GHOST'S MEMOIR

The Making of Alfred P. Sloan's *My Years with General Motors*

By John McDonald

MIT Press • 202pp • \$24.95

DID GM TRY TO SQUELCH A CLASSIC?

There's no such thing as bad publicity, say PR pros, but some executives don't agree. Among others, the DuPonts, the Versace family, and, most recently, Wall Street's James J. Cramer have halted or interrupted distribution of unflattering exposés. Few businesses, though, have been accused of attempting to kill a book that made them look good—until now.

A Ghost's Memoir, by former *Fortune* writer John McDonald, asserts that in the 1950s, GM attempted to quash Alfred P. Sloan's *My Years with General Motors*, a volume that came to be regarded as an indispensable work on American industrial management. McDonald's new book, published four years after his death, is a fascinating, if occasionally legalistic, account of a contentious and little-known affair. It also offers interesting portraits of such renowned figures as GM Chairman Sloan, Time Inc. Editorial Director Hedley Donovan, and the megalawyers at Cravath, Swaine & Moore.

In 1954, Sloan and ghostwriter McDonald set out to pen a memoir on Sloan's years at GM, then the world's largest corporation. From the start, it was understood that *Fortune* would publish excerpts. After settling on McDonald's fee and a split of royalties, the duo, along with assistant Catharine Stevens, began interviewing and gathering material from corporation executives. The project expanded, becoming more of a heavily researched corporate history than a simple life story. In 1956, they sold the book to Doubleday.

Three years later, they had a finished 800-page draft in hand that Doubleday's editor-in-chief called "magnificent." At that point, GM persuaded Sloan to shelve the book. *A Ghost's Memoir* says that it took a lawsuit and negotiations stretching over almost five more years to get the work into print.

Why? According to McDonald, GM's lawyers worried that Sloan had made admissions that could come back to haunt the company in federal antitrust litigation. (McDonald acknowledges that GM was under intense federal antitrust scrutiny during these years.) But the more he tried to figure out exactly which statements worried GM attorneys, the more mysterious it all became to McDonald.

As *My Years* would show, beginning in 1908, William C. Durant put GM together as a loose collection of auto- and auto-parts makers. Its lines included Buick and Cadillac, followed in time by Chevrolet, Oldsmobile, and others. Durant's financial troubles led, in 1920, to a takeover of the company by DuPont, and Sloan, who had worked at GM for only two years, became one of four top execs. He began to implement a plan for better integration of operations—for "decentralization with coordinated control." This, McDonald believed, was Sloan's unique historical contribution: constructing the modern corporation on primitive foundations.

A fresh marketing strategy came in the form of a 1921 study, also quoted in *My Years*, that recommended "covering the market for all grades of automobiles that can be produced and sold in large quantities." This meant a separate car for each of several suggested "price steps." By the mid-'20s, GM's five basic lines were set: Chevrolet, competing with the upper tier of Ford production; Pontiac, which would compete with a Hudson model; followed by Oldsmobile, Buick, and Cadillac.

McDonald speculates that this was the document that so troubled GM's lawyers. Although the 1921 study asserted that "a monopoly is not planned,"

it showed clearly that GM antic taking on all comers, wielding the el of vast economies of scale. F one ever said to McDonald or that this was the smoking gun.

Failure to publish the book, M ald claims, was a disaster for h reer. Deprived of his share of roy he also found himself in "disgra *Fortune*, with his salary held to it level. So in 1962, with the thre limit for damage litigation appoa McDonald filed suit against GM fo pressing Sloan's book.

Once the lawsuit was under wa author says, Time Inc. "entere game." Editorial Director Do warned McDonald that if he didn't

the action, his career be in jeopardy. Here Donald's account gets juicy. Time was conc about both the loss of and damage to *For* reputation. But its leg vice came from a con source: Cravath, Swa Moore's Maurice Moore, who was chief at Time, a member of that represented GM, Sloan's personal lawyer.

Moore reveled in conflict terest as a way of life," the author

At this point, GM suddenly tu from confrontation to offer a settle a revised version of the book th approved for publication. But Mo ald says the new work contained less changes"—numerous "inaccu deflected meanings, misleading s ments"—that followed no perce pattern. This was not only unaccep to McDonald and Sloan as a fin product but also had the effect of cealing GM's true objections, ma counterproposals nearly impossible.

Just how McDonald ends the bat and gets the book published in De ber, 1963—provides the final twis this nonfiction thriller. Suffice it to that he was an accomplished gar and author of a book entitled *Str in Poker, Business, and War*. His test with GM wound up benefiting e one: *My Years with General Motor* came a *New York Times* best-seller a classic of management literature.

BY HARDY G

Green is Books E



COMPANY LAWYERS FEARED ALFRED P. SLOAN'S MEMOIR MIGHT FUEL ANTITRUST LITIGATION

ING DIGITall
ne's invited

The flat out clear choice.

WiseView™ at any angle.



Now you can get distortion free viewing 1.8° to 40° displays with outstanding clear resolution. The choice is clear. The choice is WiseView digital displays by Samsung.

WiseView technology that's ahead of its time. Every TFT-LCD visual display on a cell phone, notebook, monitor, PDA, LCD TV or game with the WiseView

logo has the reliability, clarity and quality that you can expect from Samsung.

WiseView from Samsung. When you're looking for the perfect view, look for the WiseView logo. It's flat out the clear choice.

For more information, visit us at
www.samsungTFTLCD.com.

**wise
view™**

SAMSUNG TFT-LCD



notebook



TFT monitor



PDA device



LCD TV

SAMSUNG

ELECTRONICS

WiseView is a trademark owned by Samsung Electronics Co., Ltd.

BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

HANG ON TO YOUR CD PLAYER FOR NOW



DataPlay disks aim to replace audio CDs, but they face daunting copy-protection hurdles

When the compact disk burst onto the consumer-electronics scene in the mid-1980s, it drove vinyl records and pre-recorded cassette tapes off the market. A format like that normally takes a decade or more to become dominant, but the perceived superiority of the CD and the fact that the new equipment quickly became affordable resulted in rapid acceptance. Technologically, the audio CD has become a bit of a fossil itself, but don't toss your Discman just yet. My guess is that the CD will be with us for quite a while.

That's not for want of challengers. There are audio DVDs, which can hold many hours of music. And there are two entries from Sony, Super Audio CD and MiniDisc, which the company has pushed to little effect—except in Japan—for a decade.

I have just spent some time playing with the newest contender to the CD throne, DataPlay, from a company of the same name. DataPlay is potentially an attractive product. Each double-sided disk, which comes in a plastic cartridge not a lot bigger than a postage stamp, holds 500 megabytes. That's about 20% less capacity than an audio CD, but modern compression technology lets it store five hours of CD-quality music on a disk. Currently, the only way to listen to DataPlay disks is with a dedicated player, such as the \$370 unit co-branded by Evolution Technologies and MTV Networks. I found the controls on both the player and DataPlay's FuturePlay Windows software awkward, but such first-generation efforts will undoubtedly improve.

The most interesting thing about DataPlay is that it is the first medium that can be produced as cheaply as a conventional CD and also written to repeatedly, like a CD-RW. This raises some interesting possibilities. A record company could sell a prerecorded DataPlay disk containing the 74 minutes or less of a CD and leave the rest blank for buyers to add their own music. The publisher could add a game or a video—or fill the space with more songs that the buyer can access for an additional charge. The disk even lets you hear a preview of each song before you decide whether to buy it.

So what's not to like? Copy protection. The music industry has made it clear that it will

never again allow any digital medium that the standard audio CD, can be copied free without the support of record companies. DataPlay had to adopt a rights-management scheme that restricts how players and media can be used.

You can play a DataPlay disk on your computer from a player attached by a USB cable, but you cannot copy the music to your hard drive. If you had a DataPlay drive built into your computer—something that will happen if the format succeeds—you would not be able to download music to a portable player unless it used the same rights-management plan. Even if you save any music, however obtained, to a DataPlay disk, you cannot copy it back to your computer. So while DataPlay disks—about the size of a postage stamp—can actually be used to store Windows programs or data files,



STAMP-SIZE:

DataPlay's tiny cartridges manage to store five hours of music



protection drastically reduces their utility for storing music.

Consumer acceptance of copy protection is just one of the hurdles DataPlay faces in its race to succeed the audio CD. The industry's resistance to new recording formats is extremely common, and it has as much to do with who gets royalties from what media as it does with technical issues. DataPlay has deals with all the major record companies except Warner Music and Sony, which promises releases from such artists as *NSYNC and Britney Spears to Sarah McLachlan and Alanis Morissette. But until players begin shipping in quantity, it will be hard to tell how extensive DataPlay's catalog will be. While Warner Music probably will come aboard, Sony, which favors its own media, looks like a holdout that will create a gaping hole in the DataPlay lineup.

It's going to take a lot of work for the industry to try to develop a format and copy-protection scheme that all the consumer-electronics manufacturers can agree on and that both record companies and consumers will accept. The audio CD could be replaced by something offering more capacity and better sound quality, but I don't think that will happen soon.

BusinessWeek online

A PHOTOGRAPHERS' WORKHORSE GETS BETTER. Check out the new Photoshop 7.0 from Adobe at Technology & You at www.businessweek.com/technology/

One button. Infinite reach.



Only WebEx is equipped to deliver Web conferencing services with the reliability, scalability, and security your business requires. Though a number of companies are attempting to follow our lead, none come close to the tremendous reach and power of our global carrier-grade network featuring built-in redundancy and real-time switching—like the ubiquitous telephone network. The result? It's incredibly easy to communicate securely and conduct business with infinite confidence no matter how far and wide your meeting must reach. Bringing the meeting to you—wherever you may be. Visit us at webex.com or call 877-50-WebEx (877-509-3239).

BY LAURA D'ANDREA TYSON

THE FARM BILL IS A \$200 BILLION DISASTER



HIGH RISK:
These expensive subsidies will go to the wrong folks at a time of big budget overruns. Worse still, they sabotage America's credibility

Most agricultural output in the U.S. is produced on huge farms. The family farmer tilling a small plot of land is a symbolic figure, reflecting America's past. But the myth of the self-reliant American farmer, and the values he represents, apparently still retains considerable political resonance. With the professed but disingenuous goal of creating "a generous and reliable safety net for American farmers," Congress, with the support of both Republicans and Democrats, has passed, and President Bush has signed, one of the worst pieces of legislation of the past decade. A fight for congressional seats in November's election, not the well-being of America's few farmers, is the real motivation behind this bill. Unfortunately, its collateral damage on the nation's foreign policy and budgetary priorities will be substantial.

The farm bill is dreadful economic policy. It dramatically increases subsidies on large staple crops like soybeans and wheat, introduces new subsidies on crops like lentils and peanuts, and resurrects old subsidies already eliminated on crops like honey, wool, and mohair. Overall, the bill raises the level of agricultural subsidies by at least 80% and will cost \$180 billion to \$190 billion over 10 years. Three-quarters of these subsidy payments will accrue to the biggest and richest 10% of farmers. By design, the subsidy schemes will encourage farmers to increase production when prices fall below specified levels, exactly the wrong response from a market point of view and one that will understandably ignite the wrath of our trading partners by encouraging American exports and depressing global prices. For years the U.S. government has lectured the rest of the world, especially Europe, to slash agricultural subsidies and to move away from production-based subsidies toward direct income-support payments to farmers. Now the U.S. is doing the opposite of what it has been preaching.

This about-face has dealt a severe blow to American credibility around the world. Less than six months ago at trade talks in Qatar, Washington promised that phasing out agricultural subsidies and improving access for agricultural exports from developing countries to the U.S. and Europe would be priorities for a new round of multilateral trade negotiations. This promise won support from leaders of the developing world for the launch of such a round, despite their concern that international trading rules are rigged to favor the rich countries. The new farm bill threatens to kill the negotiations before they have even begun.

Just three months ago at another international meeting in Monterrey, Mexico, the Bush administration proudly announced a plan to increase America's paltry foreign aid budget by about \$5 billion a year over three years, a 10% increase. But even if this increase is enacted, America will spend substantially less on foreign assistance for the world's poor than on subsidies for domestic farmers over the next decade. The developed countries already spend about \$350 billion a year in agricultural subsidies, 10 times what they spend on foreign assistance. The 5 billion people in the developing world, most of whom rely on farming for their livelihood. Cutting agricultural subsidies, which depress global agricultural prices and reduce incomes in the developing world, would be the single most effective way for the U.S. and other developed countries to help the world's poorest citizens.

The legislation is also emblematic of an alarming trend that has taken hold in Washington during this election year: escalating budget deficits fed by large increases in government spending. The political consensus on fiscal responsibility forged in the second half of the 1990s has shattered, and the discretionary spending caps and other budget process rules enacted more than 10 years ago to control deficit spending have lapsed. The President's decision to sign the farm bill, combined with his request for significant new spending on homeland security and the military, indicates that the President's veto will not be used to stem the flow of budgetary red ink. A growing number of private sector forecasters are predicting government deficits of \$200 billion or more, averaging 1% of gross domestic product, over the next 10 years. If the ill-advised Bush tax cuts slated to go into effect in 2006 and beyond are accelerated or made permanent, as the Administration favors, the deficit picture gets much worse.

The imposition of steel tariffs and the passage of the farm bill have shaken the world's faith in America's commitment to trade liberalization and to promoting development in the world's poorest nations. And a return to budget deficits is stirring unease in global capital markets, just when the foreign appetite for dollar-denominated capital assets appears to be waning. If the Bush Administration loses the confidence of its allies and global capital markets through a series of misguided, politically motivated policy mistakes, the risks to the dollar and the health of the economic recovery could be serious.

Laura D'Andrea Tyson is dean of London Business School.

You have an empty wine bottle. A dime
is placed inside the bottle and the cork
is inserted in the neck. Your job is to
get the dime out without removing the
cork or damaging the bottle.

>01/123<

For information
contact us

How do you do it?

...Push the cork in.

IF THE ANSWER WASN'T OBVIOUS,
START THINKING DIFFERENTLY.

Which is exactly the strategy behind the totally new 2003 Ford Expedition. Solutions are easy to see in hindsight. But having the foresight to come up with something completely different. Smart, innovative ideas require unconventional thinking.

You have to think without boundaries. The result—123 major innovations.



ation >01/123<: PowerFold™ 3rd-Row Seat.

Design for the 3rd-row seat was to design it so that it's there when you need
space and not there when you need cargo space. By thinking beyond conventional
design, we were literally able to let you have your cake and eat it too.

**INTRODUCING THE ONLY 3RD-ROW SEAT THAT FOLDS
COMPLETELY FLAT INTO THE FLOOR AT THE PUSH OF A BUTTON.***

• Folds flat into the floor • 60/40 Split
• Independent Operation • Push Button
Power Control Available for 3rd-Row Seat
• Increased Passenger leg and hip room

**INTERIOR VERSATILITY—THIS REVOLUTIONARY
SEAT DESIGN IS ONLY AVAILABLE ON
THE TOTALLY NEW
2003 FORD EXPEDITION.
IT HAS NO EQUAL.**



no boundaries

1-866-SUV-FORD See all 123 innovations, www.fordvehicles.com/expedition

*Power assist optional

EDITED BY MICHAEL J. MANDEL

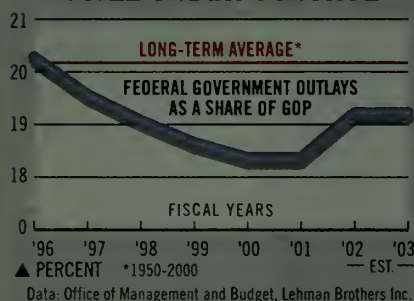
SPENDING BINGE? NOT REALLY

Why no public outcry—yet

And they're off! From the farm bill to increases in defense spending, Democrats and Republicans seem to be vying to see who can spend the most.

Nevertheless, federal outlays as a share of gross domestic product are still relatively modest in historic terms. Even including the farm bill and the

FEDERAL SPENDING IS STILL UNDER CONTROL



Mar. 9 stimulus package, federal spending will likely total just 19.2% of GDP in the current fiscal year, according to estimates from Lehman Brothers Inc. (chart). That's still well below the 20.2% of GDP the federal government averaged from 1950 to 2000. And Lehman's chief economist, Ethan Harris, projects the federal share of GDP could stay at 19.2% in fiscal year 2003 as well.

Moreover, political resistance to higher spending may increase if the federal government's share climbs much above 20%. Historically, that has been the level that triggers a public reaction. For example, when the federal share of GDP rose above 20% in the second half of the 1970s, that helped build popular opposition to government taxes and spending. Indeed, the federal share of GDP peaked at 23.5% in 1983, right when the Reagan tax cuts started going into effect. "One reason why total government spending hasn't fluctuated that much over the years is that eventually political pressure forces it back down," says Srinivas Thiruvadanthai, director of research at the Jerome Levy Forecasting Center in Mount Kisco, N.Y. As a result, federal expenditures have tended not to move much above or below 20% of GDP in the long run.

That doesn't make the current spend-

ing trends harmless. What's worrying economists is that both defense and homeland security have been added to Social Security and Medicare as non-negotiable spending categories. That means that the public outcry against big federal spending may be more muted than in the past.

By Margaret Popper

THE AX'S CRUELEST BLOW

Older unemployed are still reeling

Added this to your midlife crisis: Workers who lost jobs this recession are staying unemployed longer than those in the last economic downturn—an average of 16.6 weeks in April, 2002, vs. 13.5 weeks in April, 1991, right after the last recession ended.

The burden of extended unemployment is falling hardest on older workers, notes David A. Wyss, chief economist at Standard & Poor's. Over the past year, the length of unemployment for workers 45 and over has risen much more than for younger workers. For example, the duration of unemployment for workers age 55 to 64 averaged 20.6 weeks in the three months ending April. That's up nearly five weeks from the same period a year earlier. The unemployment duration for workers age 45 to 54 showed a similar but slightly smaller rise. By comparison, the duration of unemployment rose only by about three weeks for workers age 25 to 44.

Of course, it could be that some older unemployed workers, flush with money from the boom, are pickier when they look for a new job. But a more worrisome possibility is that many older workers aren't as comfortable with new technology as their younger counterparts, making it harder to find jobs.

In addition, Wyss suggests that in this downturn companies have been axing entire business units when they cut jobs, rather than cutting less-senior workers. This lops off more older workers with one swing.

The increase in duration of unemployment could help dampen the recovery, Wyss predicts. (It could also be adding to the spike in age-discrimination complaints, which have surged 23% in the past two years, according to the Equal Employment Opportunity Commission.) Older workers already have had to wrestle with declines in their retirement portfolios. Now it is likely that a growing proportion will

have to accept lower-paying jobs they find them. "Forget about retirement," Wyss says.

By Robert L.

BRIGHT LIGHTS, BIG INFLATION

It's higher in large cities

Over the past year, the headline number for inflation was 1.6% that doesn't represent everyone's experience. In fact, big-city dwellers have been hit by bigger price increases than their small-city or counterparts.

In the year ended April, 2002, inflation in the largest metropolitan areas—with a population of more than 1 million—was 2.1%. By comparison, the inflation rate in medium and small metropolitan areas was 1.1%, and it was 0.7% in nonmetropolitan urban areas defined as areas with a population of 50,000 (chart).

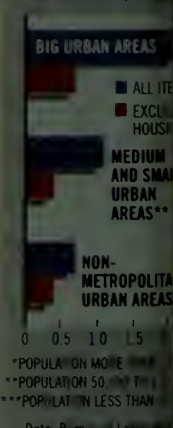
The difference was due primarily to housing. Take that out, and the gap between big cities and small towns narrows significantly. "Housing prices increased in cities faster than inflation," says Susan M. Wachter, professor of real estate and finance at the University of Pennsylvania's Wharton School.

Wachter argues that the higher inflation in big cities reflects a sort of urban renaissance. The largest American cities are losing population at a much slower rate these days. Less than a third of the largest cities lost population during the 1970s compared with half of the top 100 cities in 1970 to 1990, says Wachter. Many rural towns have been shrinking.

It has also become harder to build housing near city centers. Many big cities as well as local governments try to limit urban sprawl. These policies make cities more livable, but they also limit the local housing supply. Such anti-sprawl zoning started in the late 1980s, "but now it is pervasive enough to affect metropolitan areas nationwide," says Wachter.

By Margaret Popper

WHERE PRICES ARE RISING PERCENT CHANGE IN PREVIOUS YEAR, APRIL



JAMES C. COOPER & KATHLEEN MADIGAN

THERE'S NO PLACE LIKE HOME— FOR ECONOMIC GROWTH

Low mortgage rates and optimistic consumers bode well for housing

U.S. ECONOMY

Housing is an American obsession. A whole cable network devoted to caring for home and garden, shelter magazines populate the newsstands, and the Internet is filled with do-it-yourself Web sites. Housing captures the limelight in the economy as well. And while performance in 2002 may not be as stellar as in previous years, worries about housing bubbles and construction stalling out the recovery are overblown.

MORTGAGE RATES REMAIN ATTRACTIVELY LOW



To be sure, housing is a major economic sector. Home construction has added to real growth of gross domestic product in each of the past three years. Plus, housing influences consumer demand for everything from carpeting to appliances to dinnerware. In the first quarter, such spending jumped at a 17% annual rate. Homebuilding and

spending on home goods together account for 8.7% of U.S. economy. In comparison, business investment in information-processing equipment accounts for 1%, and federal spending on goods and services is

equally important is housing's wealth effect. A substantial portion of consumer net worth comes from rising home values. What makes this crucial to the outlook is tapping into home equity in the form of refinancing or lines of credit has funded a big chunk of recent consumer purchases, and that spending has fueled the recovery.

IT'S WHY the back-to-back drops in residential construction set off worries about housing and the economy in general. If home demand or prices were to collapse, consumer pullback could drag down the recovery. However, economic fundamentals strongly argue that a crash won't happen. Three supports will keep housing aloft this year. First, mortgage rates are low (chart). Second, the economy is already in recovery. And third, labor markets are starting to turn around. Rather than being a drag on real GDP growth, housing may still have room to grow in the second half.

Such optimism about housing may seem misplaced, considering that housing starts fell 8.1% in March and 5.4% more in April. Construction began the sec-

ond quarter sharply below its first-quarter level. But the slide in starts says more about weather patterns so far in 2002 than about the economy's health.

A mild winter across most of the country boosted starts in both January and February. The nearly balmy temperatures also allowed more buyer traffic and sales, which pulled forward sales activity from the spring. That's why starts are falling—and why sales of both new and existing homes also will likely look weak this quarter.

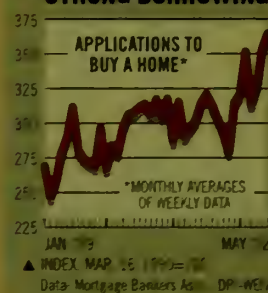
But that doesn't mean home demand is flagging. So far in May, the monthly average of mortgage applications to buy a home was at the highest rate ever (chart). As these loans are processed, home sales will begin to rise again. Plus, demographics indicate there's room for further growth. Overall homeownership stood at a near-record 67.8% of households in the first quarter, but for those 35 or younger, the prime home-buying group, the rate is only 41%.

Increased home buying indicates that consumers are upbeat about the economy's future. That optimism was also borne out in the gain in the University of Michigan's consumer sentiment index for early May. Consumers are seeing a nascent turnaround in the labor markets, where in April, private companies added workers for the first time in almost a year. In addition, for most workers, pay raises are outpacing inflation, giving a boost to buying power.

Home buyers will also get a lift from relatively cheap mortgages. Although mortgage rates fell sharply in the aftermath of September 11, they have recovered to a point below 7%. Because inflation is expected to stay tame, and because the Federal Reserve is unlikely to raise short-term interest rates soon, mortgage rates will stay near 7% for a while. That will make home buying affordable this year just as better job growth gives more consumers the financial stability to buy a home.

IS THERE A DARK LINING in housing's silver cloud? Some would say yes, arguing that the unwavering rise in home buying, even in the face of recession and terrorism, means that buyers have become irrational, and

LENDERS REPORT STRONG BORROWING



Business Outlook

that prices have bubbled up to unsustainable highs.

Certainly, some areas have seen real estate prices fall. After the crash of the tech industry, home prices in Silicon Valley slipped. High-end apartments in Manhattan have also gotten cheaper. But for the U.S. as a whole, housing is simply not in a bubble.

Keep in mind what a bubble is: It's when the price of an asset is bid up rapidly to a level unjustified by fundamentals. Think tulip mania of the 1600s or dot-com stocks in the 1990s. Housing has not seen an unsustainable price jump when you include rising land costs but hold the size and quality of the building constant. Since 1980, the price of such a new house rose, on average, 3.5% a year, based on a Commerce Dept. index.

From 2000 to the first quarter of 2002 alone, the annual gain was 5.1%. The recent runup can be explained by falling mortgage rates, which let people pay more for a house while keeping their monthly payments down, the record participation rate in the labor markets, and the rising purchasing power of workers' wages, spurred by high productivity and low inflation.

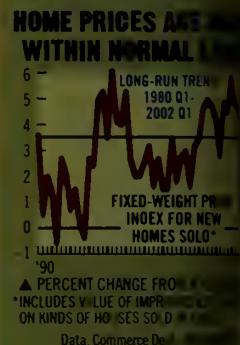
EVEN SO, is the pickup in the growth rate worrisome? *BusinessWeek* calculates that if the rise in new-home prices had followed the 3.5% long-run trend, the average house would cost \$6,000, or about 4% less than what the house actually sold for in the first quarter. Considering the give-and-take of real estate bar-

gaining, that gap is hardly large enough to suggest that U.S. homes are overvalued (chart).

Fed Chairman Alan Greenspan presented a similar conclusion in an April speech. He downplayed the idea that housing was approaching a bubble like that of the Nasdaq stock index of the late 1990s. He pointed out that home sales carry high transaction costs that "when most homes are sold, the seller must physically move out. Doing so entails significant financial and emotional costs, and is an obvious impediment to inflating a bubble through speculative trading in housing."

Could anything cause a nationwide crash of home values? One danger would be a sudden and sharp jump in mortgage rates. But again, given the benign outlook for inflation, that's not likely.

Instead, after some volatility in the spring, building activity and home sales should resume a modest growth rate come this summer. Add in the continued boost to household budgets coming from home equity lines of credit, and it's easy to see that the entire housing sector will contribute to economic growth in the second half. Beyond a description of happy domesticity, "sweet home" is also a maxim for economic growth.



BRITAIN

ON INFLATION ALERT, BUT HOLDING FIRE

Signs of a stronger economy have shifted the Bank of England's focus to inflation. But before any interest-rate hike is made, the bank wants to see that manufacturing is back on track and recoveries elsewhere won't peter out.

At its May 9 meeting, the BOE's Monetary Policy Committee kept interest rates at 4%. In its subsequent May inflation report, however, the central bank said it "stands ready to act to contain any developing inflationary pressures further ahead." Real gross domestic product hardly grew in the first quarter, but the bank expects the economy to be rising near its potential long-term rate of 2.5% by the

fourth quarter. Given the tight labor market, with April's jobless rate at only 3.2%, any pickup in growth will raise cost pressures.

In fact, price strains are already evident. Consumer inflation, excluding mortgage interest, was 2.3% in April, just below the BOE's 2.5% target. And service inflation alone is running at a high 4.5%.

Rising wages are fueling both consumer demand and inflation. Excluding bonuses, which have been cut back since late last year, compensation in March was up 4.4% from a year ago. Further increases could occur, given the tight labor market.

Solid pay growth, coupled with

today's low interest rates, has also boosted the housing market. In April, home prices were up 15.1% from a year ago, and new demand hit a record high.

Concerns about manufacturing will hold the BOE back, though, since an early rate hike could have a chill on business investment just as it is showing signs of improvement. Even so, March factory output slipped 0.8% from February. Manufacturing jobs were down 3.5% from a year ago, and orders remain weak.

The central bank also wants to make sure the recoveries in the U.S. and the euro zone, the largest markets for British exporters, have momentum. As a result, the BOE is unlikely to raise rates at its June 6 meeting and will wait instead until July.

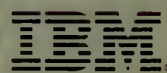
With James Mehring in New York

MANUFACTURING STILL FACES A TOUGH TIME





BANK OF AMERICA IS PLAYING TO WIN.



e-business is the game. Play to win.

Winning without owning: Maybe you don't want to own and operate your e-business infrastructure or the overhead that goes with it – maybe it makes more sense to rent it. That's why companies like Bank of America have tapped into IBM e-business on demand.™ They get instant access to applications and a state-of-the-art e-business infrastructure; meanwhile, IBM takes care of the systems and maintenance headaches. Winning in e-business is about flexibility. Get in the game at **ibm.com/e-business**

RAISING PRICES WON'T FLY

So almost everyone must keep slashing them—and that's hurting profits

While it may not have matched the vintage years of the late '90s, 2002 should have been a good one for California winemakers. With more and more wine drinkers impressed with the quality of California labels, vintners had succeeded in pushing retail prices up by roughly a third in recent years. Instead, prices for many domestic wines are being squeezed by a worldwide grape glut, the soft U.S. economy, and a strong dollar that has allowed rivals from the likes of Chile and Argentina to undercut them. That has forced California producers such as Sutter Home Winery to match the competition by slashing prices on \$7.99 bottles to \$4.99 since January. "We have put ourselves in a box," says Debra Eagle, senior brand manager for Sutter Home.

Winemakers aren't the only ones in a pricing vise these days. Even as the economy shakes off the recession, many companies face a daunting problem:

They have virtually no pricing power. It's impossible to raise prices, and often, the pressure to slash them continues unabated. The pricing pinch is affecting business across the spectrum of manufacturing and services—everything from chemicals and autos to hoteliers and phone service. "We're seeing pricing pressures of a severity that we have never seen before," says John Lonski, chief economist at Moody's Investors Service. "I don't know of too many companies that are factoring price increases into their budget with any certainty."

You'd think that might be cause for celebration—proof that inflation is dead in its tracks. But for all of the U.S. Federal Reserve's success at getting inflation under control, the pricing pressures befalling many companies suggest that the pendulum may have swung too far the other way (page 37). While price cuts are a boon for consumers, the lack of pricing power is a key reason corporate profits remain anemic. "I don't think we'll be back to 2000 earnings until 2004 or 2005, largely because of the pricing environment," says David A. Wyss, chief economist at Standard & Poor's.

That's bad news for the broader economy. Without a surge in corporate profits, companies may defer the heavy capital investment that's so essential for restoring robust growth to the economy. Wyss says that he expects capital spending, which fell 4% in 2001, to dip another 0.2% this year, before rising 10.5% in 2003. Even that

will be less than the pace of the 1990s. Says Wyss: "It'll kick in late usual and not be as strong as usual."

The pain is most pronounced in manufacturing, where the makers of televisions, equipment and autos, as well as commodities such as fertilizer and wood, are battling overcapacity. Total finished goods prices have fallen 2% over the year, while prices for core consumer goods have dropped 1%. That's the sharpest decline since the early 1960s—and stark contrast to the last time the economy emerged from a recession, in 1982. Then, consumer-goods prices rose 3%.

Even where companies are starting to see a little lift, it's hardly enough to write home about. In such industries as airlines and wireless-phone services, companies have been able to eke out moderate price gains in recent weeks and months. But those increases have been able to compensate for the price cuts that have accrued over the past few years. While the average domestic airfare, for instance, has risen 2.9% so far in 2002, to about \$125, it's still significantly less than the \$150 the airlines were able to charge as recently as February, 2001.

Although prices in services have risen more than 3% over the year, there may be less there to meet the eye. Economists say the gains were confined largely to the recreational housing market and a few sectors, such as health care and education, that have been historically immune to price competition. Some other industries in

PRICING POWER: WHO HAS IT...

SERVICES



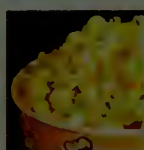
Health-care costs—and insurance premiums—continue to spike. Commercial and homeowners' insurance are soaring, too.

REAL ESTATE



Home prices rose 8% in the first quarter, bringing joy to both homebuilders and current homeowners.

ENTERTAINMENT



The price of having fun keeps going up: Everything from movie tickets and cable TV to major-league ball games costs more.

PROTECTED WORK



New tariffs on imported steel have sent prices soaring so far this year. Lumber prices are set to kick



quality, Addis has nonetheless had to trim the number of staffers on each project. "If a client wants to pay less, they get fewer people on the project and lower-paid people," he says.

To be sure, it is not uncommon for companies to struggle to raise prices coming out of recessions. But the situation is exacerbated this time around by a stronger-than-usual dollar, which is keeping the pressure on.

Consider CP Kelco, a Wilmington (Del.) maker of chemicals used in everything from drilling fluid to food products such as jelly and mayonnaise. Thanks largely to a sharp rise in Chinese imports, the prices for CP Kelco's xanthan gum fell as much as 25% over the past four years. "The procurement directors at the Krafts and Unilevers of the world have been very good at negotiating," says Senior Vice-President John Falcetta. When CP Kelco announced an 8%-to-12% price hike in January, most customers balked. But about a third of the company's food clients relented after the company convinced them that its product was more reliable. "As we talk to people, our pricing is gaining a stronger foothold," says Falcetta.

Many industries also suffer from years of overinvestment. For all industries, capacity utilization is down to 75.5%, and the rate is much lower in such troubled sectors as aerospace, machinery, semiconductors, and paper products. That's not only

ons—tobacco and insurance—have succeeded in pushing through considerable price hikes (page 36). But the majority of service firms, from restaurant chains to retailers, are having as much trouble as manufacturers getting price increases to stick. That's especially true of advertising, editing, and other creative services,

since many companies have cut such "discretionary" spending heavily. Steve Addis, president of Addis Group, a \$6 million branding firm in San Francisco, notes that as clients have pressured him for concessions, he has had to cut his fees by as much as 30% to retain accounts. "It has been across the board," says Addis. "Clients are under tremendous

pressure to reduce their costs." While he works hard to maintain

well under the 81% average of the past decade but also lower than the 78% level coming out of the 1990-91 recession. Given the slow improvement that many sectors face, Moody's Lonski believes that it could take until early 2004 to break the 80% barrier—the historical threshold, say economists, where manufacturers' price hikes stick.

For now, many producers of goods are just doing their best to weather the pricing drought—often by making cuts

WHERE IT REMAINS WEAK

FACTURING

Slumping prices pushed revenues down 6% in the first quarter. To bolster makers must still debates and loans.



average domestic flight—\$25 less than in 2000.

AIRLINES

Despite some recent success raising fares, airlines still get only \$125 per

PHONE SERVICE



there and in long distance will likely continue.

Wireless providers are trying to halt price wars, but falling prices

RETAIL



aggressive sales to keep the goods moving.

After years of overexpansion, apparel and other retailers still need

that put their suppliers in the same bind. At Ryerson Tull, a Chicago steel processor, executives have responded to the 7% drop in prices since early 2001 by slashing the annual capital-spending budget, from \$30 million to just \$13.5 million. And back in Napa Valley, Sutter Home has begun looking for cheaper bottles and cardboard packaging.

Then there are those stealth price hikes. Sure, auto makers are dangling

rebates of as much as \$3,000 in lieu of the earlier 0% financing offers. But since December, General Motors Corp. has been charging up to \$600 for safety features such as antilock brakes and side-impact air bags on some models that previously included them as standard features. Even that maneuver hasn't been enough to reverse the ongoing slide in car prices, though. They fell 0.2% in April, after a 0.3% dip in

March. "Pricing continues to be tentative," says GM Chief Financial Officer John M. Devine. "That's true of most any product you can name as long as that remains the case, the economy—and the economy—will struggle to regain flight."

By Dean Foust in Atlanta, Michael Arndt and Robert Berke in Chicago, Amy Barrett in Philadelphia and bureau reports

INSURANCE: SKYROCKETING RATES, PLUNGING COVERAGE

For years, John Carello, vice-president of Beechmont Bus Service Inc. in Mount Vernon, N. Y., has kept accidents and other financial losses down. The company has rarely had fender-benders with its 187 school buses and other vehicles, nor has it ever filed a claim for more than \$1 million. Yet Beechmont's two-tiered insurance rates, which already ate up a tenth of revenues last year, just jumped 40% on coverage up to \$1 million and doubled on coverage for the next \$9 million. "It's hard to stay profitable when rates rise this much," he says.

Across the U.S., many companies large and small are facing the same problem as they look to insure against everything from terrorism to workers' compensation. After declining an average of 6% since the mid-1990s, commercial property and casualty rates rose 15% last year; a 30% hike could come this year.

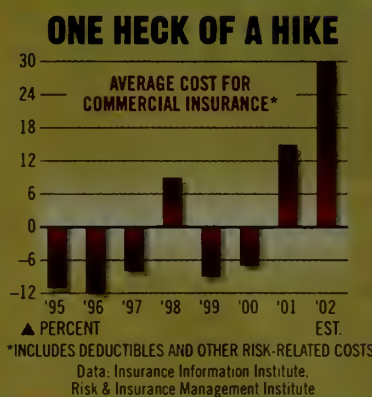
Moreover, the costly policies often cover less risk. Look at the Durst Organization, which owns the Condé Nast building in New York's Times Square. Not only do insurers refuse to cover terrorism now; the maximum payout has also shrunk to \$600 million from \$1.5 billion a year ago even as rates tripled. "I understand why they won't cover terrorism," says co-president Douglas Durst. "What's unconscionable is raising rates for such reduced coverage."

Many insurers also are doubling or



looks riskier than ever—and it's not all due to terrorism. An escalation in the frequency of lawsuits and size awards for liabilities ranging from asbestos to shareholder fraud also has insurers worried. Says Mark Lescault, chief underwriting officer at Swiss Re's Americas Div.: "We're taking a very hard clear-eyed look at risk." Meanwhile, investors are demanding

BUMPY RIDE: "It's hard to stay profitable," says a Beechmont Bus exec



tripling the deductible on other types of coverage. Chris Mandel of the Risk & Insurance Management Society, which represents corporate risk managers, says his members are now being forced to pay the first 5% of the insured value for hurricane damage, up from 2%.

Why the massive rate hikes? Insurers clearly are trying to recoup losses from September 11, which stand at about \$38.2 billion, says the Insurance Information Institute (III). But other factors have fueled the rise. Falling stock prices and interest rates have battered insurers' investment returns. Insurers paid out \$53 billion more in claims than they took in from premiums in 2001, but made only \$37 billion from investments. A year earlier, investments brought a \$9.5 billion surplus.

At the same time, doing business

the same fiscal prudence and bottom line results from insurers that they want from the rest of Corporate America. In the years of buoyant investment returns, insurers could underprice policies to build market share. No more.

All this means more hard-pressed companies are opting for self-insurance, inadequate insurance, or none at all. So far, the hardest-hit appear to be public companies in sectors such as energy, real estate, health care, and tech, where lawsuits or terrorist activity are likely to be more of a threat. Yet the real pain could come on the key renewal date of July 1, when insurers will price a year of bad news into their policies. Chief economist Bob Hartwig of the III estimates that up to \$10 trillion of risk has already been pushed back on business owners. "Many companies are playing Russian roulette, putting their shareholder and creditors at risk," he says. But some companies figure, that's a risk worth taking.

By Diane Brady in New York



UP TO 70% OFF

SOME PRICING
POWER WOULD
WORK WONDERS
FOR PROFITS

COMMENTARY

By Rich Miller

DON'T CRY OVER A LITTLE INFLATION

After years of hibernation, the inflation bears are starting to growl. A surprise 0.5% jump in consumer prices in April—the largest in nearly a year—drove the annual inflation rate over the last three months above 4%. Couple that with the Federal Reserve's lax monetary policy, and the inflation-phobes argue that the U.S. economy may be in for a debilitating spike in prices. "Long-run inflation risks are rising," says one of America Securities Chief Economist Mickey D. Levy. His prescription: an aggressive regime of interest-rate hikes by the Fed.

Levy and his fellow bears should relax. Sure, inflation can pose dangers for the economy. Look at the 1970s. But after a year of inflation at rock-bottom levels, the return of a bit of pricing power is nothing to read. Indeed, it may be just what's needed to ensure that the expansion is staying power.

How so? Well, corporate chiefs are shell-shocked after last year's collapse in profits. So they're holding back from hiring and from working over money for capital investment. And even as the economy perks up, there's little sign of a profit surge. But without healthier earnings, the recovery could be muted later this year as the current growth spurt—which has stemmed largely from the need to replenish inventories—wears off.

That's where a little pricing power could come in handy. With costs al-

ready cut to the bone, strong profits are unlikely until companies are able to start boosting prices again. And only then will companies resume spending on computers and other efficiency-enhancing equipment—spending that will be key to the durability of the recovery. The higher prices that would result in the short term would be a cost well worth taking and one that Fed Chairman Alan Greenspan, for one, seems willing to bear. With inflation over the past year running well below 2%, the benefits of a return to 2½% or so appears to well outweigh the risks.

Corporate coffers wouldn't be the only beneficiary. A pinch of inflation would help ensure that the U.S. steers well clear of the dangers of deflation, the wasting disease afflicting Japan over the past five years. Indeed, Japanese consumers still refrain from buying goods in anticipation of lower prices in the future, a phenomenon that has bogged down the economy for years. "When you have inflation rising so slowly, the greater risk is deflation," says John B. Brynjolfsson, executive vice-president of Pacific Investment Management Co., a bond investment firm.

In fact, by most measures, the inflation rate is falling this year, not rising—even as economic growth accelerates. A surfeit of capacity throughout the economy means that most companies have little or no pricing power—many continue to be forced to cut prices. The personal consumption expenditure price index, the inflation measure favored by the Fed because it takes account of shifting consumer tastes, has risen by a mere 0.8% over the past year. "Inflation is returning to levels not seen on a sustained basis since the early 1960s," says James Glassman, senior economist at J.P. Morgan Securities in New York.

Of course, the April surge in the consumer price index was a surprise. But much of the increase came from higher prices for gasoline and cigarettes—two factors that are likely to reverse in May. What's more, some of the price increases showing up in the CPI should be welcomed as a sign that the economy is on the mend.

That's certainly true of hotel charges, which jumped 1.6% in April, as travelers continued to shake off the effects of September 11. Airline fares also have risen this year after falling sharply in the latter half of 2002.

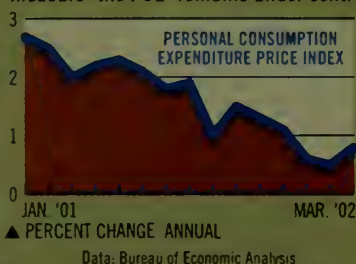
To be sure, there's always a risk that inflation can spiral out of control once it starts to accelerate.

But as long as strong productivity growth keeps labor costs in check, price pressures aren't likely to take off. And that's why a little inflation now is no reason to lose sleep.

Miller covers economic policy from Washington

NOT MUCH ON THE RADAR

Forget the CPI. The Fed's favorite inflation measure—the PCE—remains under control



COMMENTARY

By Paul Magnusson

BUSH: WHAT PRICE FAST TRACK?

Is the price for the President's vision of free trade too high? When he took office, George W. Bush unwrapped the most ambitious trade agenda ever: bilateral deals with Chile and Singapore, a parley with the 35 democracies of the Western Hemisphere, and a global free-trade pact with the 144 nations of the World Trade Organization. But first, he set out to persuade Congress to grant him "fast-track authority," the right to an up-or-down vote on each deal, without amendments.

Rather than buy votes in Congress with pork, however, the Administration turned to protectionism to realize both its political and policy aims (page 102). Bush curried favor with steel-state lawmakers—and voters—by imposing tariffs on imported steel. He secured support among Western senators by slapping tariffs on Canadian lumber. And he caved in to farm-state legislators on massive subsidies for agriculture.

Congress, never shy when it comes to helping hometown industries, joined the rush to the trade barricades. "What's happening on Capitol Hill is not pretty," says Barbara Hackman Franklin, Commerce Secretary to former President George H.W. Bush and now a business consultant.

Congress isn't just looking for the bridges and highways it once bargained for



CAVING IN
ON STEEL
AND FARM
SUBSIDIES

when President Clinton sought passage of NAFTA in 1994. The tab for fast track includes restrictions on Vietnamese catfish, Caribbean and African clothing, and shoes from Bolivia and Peru—precisely the countries that might benefit most from open markets.

The Democratic Senate has been adding its own goodies to the fast-track bill. They include ironclad instructions to Administration negotia-

tors to preserve—during any future trade talks—the 80-year-old U.S. anti-dumping laws. Revising America's tough and often-used fair-trade laws is a top priority for most WTO nations—and the best way to get them to the negotiating table, say Administration insiders. But even though the Bushies call this provision a dealbreaker, they have backed off on veto threats.

"Eventually, you do have to worry that the juice isn't worth the squeeze," concedes one senior trade official worried about the add-ons. The Ad-

ministration hopes to strip out the most onerous parts of the Senate bill during a conference with the House, which passed a business-backed measure last December. "If the bill gets too loaded up, we'll just kill it," warns Chamber of Commerce President Thomas J. Donohue. That would be just fine with labor, which opposes fast track.

U.S. Trade Representative Robert B. Zoellick and Treasury Secretary Paul H. O'Neill have been reassuring business execs that the Administration hasn't lost its focus. And so far, corporations are still behind the bill. Still, John J. Castellani, president of the Business Roundtable, worries that protecting industries "may be sending the wrong signal to the economy" about the prospects for trade expansion. Meanwhile, other business groups fret that horse-trading on the two disparate bills will push any final vote past the October recess during a shortened election-year schedule.

Bush trade policy hasn't been all protectionist, of course. The President deserves high marks for living up to the NAFTA agreement to allow Mexican trucks on U.S. highways, for example. And the White House still hopes that the messy process on Capitol Hill will yield trade deals worthy of a GOP Administration. But as a former baseball exec, Bush knows the dangers of swinging for the fence: A strike-out is much more likely than a home run.

Magnusson covers international trade from Washington.

RISKY WHITE HOUSE TRADE TACTICS

U.S. ACTION Three-year tariffs on imported steel.

RISK Retaliation against a range of U.S. exports, charges brought before the WTO. The dispute could spark a full-scale trade war.

U.S. ACTION New farm subsidies.

RISK Other major ag exporters, including Europe, Australia, and Brazil, are threatening to bring a WTO case. Administration's action makes it harder to persuade others to cut subsidies, a longtime goal of U.S. trade policy.

U.S. ACTION Tariffs on Canadian softwood lumber.

RISK Ottawa is threatening complaints to the WTO and a trade tribunal under NAFTA. The U.S. needs good relations with its largest trading partner. A third of its softwood lumber imports come from Canada.



With Avaya, you're already this close to IP Telephony.

In fact, as the leader in voice solutions, Avaya can give you Enterprise Class IP Solutions now. By merging voice and data into one network, you cut costs while enabling employees to stay in touch with clients and colleagues, utilizing multimedia communications seamlessly — anywhere, anytime. And our MultiVantage™ Software utilizes an open architecture, which allows integration with your existing systems and business processes. So you can extend the benefits of IP Telephony at your own pace, however it makes sense for your company. See how close you are to IP Telephony at avaya.com/yes

AVAYA

COMMUNICATION WITHOUT BOUNDARIES

TELECOMMUNICATIONS

THE DAY OF THE VULTURE

Bond scavengers are starting to nibble on telecom giants' debt

Michael Embler is a scavenger. With a war chest of \$2.5 billion, he makes money for investors in the Mutual Series Fund group by buying the debt of beleaguered companies at deep discounts. He aims to cash out at a higher price once those companies show signs of recovery. His investments range from nursing homes to utilities. But he has largely steered clear of two deeply troubled industries: telecom and cable.

Until now. In May, Embler started to buy up a bit of the nearly \$50 billion in debt issued by cable operator Adelphia Communications Corp. and long-distance carrier WorldCom Inc. Embler is one of a few hardy "vulture fund" managers starting to trawl the telecom waters. The lure? Bond prices that have tumbled to as low as 40¢ on the dollar.

Of course, even at such low prices, the risks of buying are high. Investors got burned last year after grabbing dis-

tressed debt of the likes of Winstar, North Point, and Teligent. Those and other upstart telcos raced to build wireless and broadband networks just as prices plunged and all hope of ever earning a profit disappeared. Far from turning around, many failed to emerge from bankruptcy and were liquidated—all but wiping out the vultures' investments.

So why are some of them nibbling again? In part, because this time more substantial telcos, such as WorldCom and Qwest Communications International Inc., are in trouble. While these companies have huge debt problems from overly ambitious expansions, they have viable operating businesses that produce real revenues and earnings. That means a well-positioned vulture could profit from a rise in bond prices if the balance sheets are restructured—or in the case of a bankruptcy, by gaining control of assets in a debt-for-equity

swap. Says Richard C. Siderman, aging director of Standard & Poor's com group: Marquee telecoms have too much debt, but they're poor business models, as opposed to the older companies that had a lot of debt that were untested."

So far, the action has mostly be-

WHEN BAD THINGS HAPPEN TO GOOD VALUE PLAYS

Clients of some of the largest fund houses—Alliance Capital Management, Wellington Management, and Fidelity Investments—could be in for a nasty surprise. Value managers at these firms normally bet on out-of-favor but fundamentally healthy companies. Now, they're stuck with something that looks more like a vulture play: big bets on some of the most vulnerable telecommunications companies.

In the first quarter, these firms jumped headlong into the cheap stocks and bonds of Adelphia Communications, Qwest Communications International Inc., and WorldCom—troubled, highly leveraged companies whose businesses were still considered viable. Lately, those bets look pretty bad. This quarter, Qwest reported higher-than-expected losses of \$698 million, and its credit rating was cut to junk. WorldCom was cut from the Standard & Poor's 500-stock index on May 13, and its bond rating also fell to junk. The Securities & Exchange Commis-



sion and federal prosecutors are investigating Adelphia. Its CEO and chief financial officer resigned in May.

Now, investors are dumping the whole sector—the S&P telecom index is

down 17% since Mar. 2000, down 30% for the S&P as a whole. Those fund managers had a choice but to hold on as the companies turn around or lose hundreds of millions of dollars to investors. Alliance, a unit of the French insurance company, bought 102 million shares of WorldCom and 117 million shares of Qwest. The investment was worth \$2.3 billion on May 13 but just \$745 million on May 22.

CONFIDENT

Alliance's Anders says his picks will outperform

Three months ago, the buyout firms have looked like classic value plays. The stocks were 50% to 80% below 52-week highs, as investors fled the sector. Still, few believed the

Stressed Out

Many telecom bonds are trading below their \$1000 par value, signaling rising investor anxiety.

ISSUER	BOND PRICE*	12-MO. CHANGE
AT&T	\$856	-8.0%
QWEST	766	-24.4
SPRINT	756	-11.0
ADELPHIA	716	-26.6
TELEWEST	475	-47.6
WORLDCOM	470	-53.3
NTL**	322	-35.9
GLOBAL CROSSING**	15	-98.4

* As of May 14, 2002. Bonds are representative of companies' largest issues.

** Bonds in default

Data: Advantage Data Inc.

graded Qwest bonds to a junk rating. That will no doubt cause investment-grade funds to dump their Qwest bond holdings, since they will no longer meet the funds' criteria. With Qwest's \$26.5 billion debt now trading at 77¢ on the dollar, prices are likely to plummet.

But if prices are likely to keep falling, why buy distressed debt now? Indeed, many vultures are holding back from WorldCom and others' debt for that very reason. There, too, many investment-grade bondholders are trying to sell debt. With WorldCom's \$30 billion debt already trading at 47¢ on the dollar and much more of it likely to hit the market, prices certainly haven't bottomed. Still, for vultures more interested in short-term gains, the volatility could provide opportunities to buy on the dips and sell on the upswing.

But the timing is tricky. Says veteran fund manager Martin J. Whitman of the Third Avenue Funds, who just picked up some WorldCom debt: "It's like catching a falling knife." Unlike Embler, he figures the company is going bankrupt and he'll make his money by converting his debt to equity. Either way, making a killing on an industry's hard times is far from a sure thing.

By Emily Thornton in New York and Roger O. Crockett in Chicago

ressed telecom debt. And the list of ets may soon get longer. Precursor up, a telecom research outfit, pre- that as many as 24 of the 29 major ically traded telecom companies may t risk of bankruptcy, including local long-distance carrier Broadwing Inc. even AT&T Corp. Vultures are also

starting to eye troubled cable companies. In addition to Adelphia, some are picking up the debt of European cable operators like NTL Inc. and Telewest Communications PLC.

As the troubles mount, bond prices are likely to keep dropping as anxious investors flee. On May 22, S&P down-

near collapse. "In the ter, these stocks erly punished," says Harding, a Morningstar

e the recent turn of Alliance stands by its nts. "We believe the nts that we are now n this area are laying lation for the next pe- tperformance," says Anders, Alliance's rman and chief invest- cer. Still, this is the me the New York shop under fire for a big n bet in recent months. bought nearly 3 million shares Corp. stock six weeks before any filed for bankruptcy. pension fund sued over the on. Alliance claimed in court on executives misled its fund s. e isn't the only telecom enthu- ington Management Co. early 30 million shares of m in the first quarter and in- ts stake in Adelphia by 50%,

Bargain or Bomb?

Three fund families' big bets on telecommunications stocks in the first quarter now look dicey

TELECOM	FUND COMPANY	Q1* INVESTMENTS
WORLDCOM	Alliance	102 million shares to 209 million; \$80 million in bonds to \$253 million
	Wellington	27 million shares to 147 million; holds \$220 million in bonds
ADELPHIA	Alliance	1.4 million shares to 10.4 million; holds \$9.5 million in bonds
	Wellington	10 million shares to 32 million
QWEST	Alliance	117 million shares to 137 million
	Fidelity	17.5 million shares to 120 million

*Most recent data

Data: Capital Access, Bloomberg Financial Markets

becoming the largest shareholder, with 32 million shares. The value of the Adelphia stake alone has dropped by about \$400 million, to \$180 million, since Mar. 31. Fidelity Management added 17.5 million shares of Qwest in the first quarter. Spokespeople for Fidelity and Wellington say their respective companies don't comment on investments.

Such risky bets can pay off spectacularly. In the late 1970s, legendary investor Peter Lynch took a sizable

stake in Chrysler Corp. at \$3 a share, recalls William Dougherty, president of fund consultant agency Kanon Bloch Carré. "I told him then I was worried about him keeping his job," says Dougherty. "A year and a half later, it was worth \$30 a share."

Value-fund managers that bet big on telecoms look just as crazy now. They—and their investors—had better keep their fingers crossed.

By Heather Timmons in New York



MEDIA

GEMSTAR WARS: MURDOCH STRIKES BACK

The News Corp. chief is trying to oust founder Yuen

It was a shotgun marriage, arranged following a hostile takeover, lawsuits, and threats. That was back in 1998, when News Corp. Chairman Rupert Murdoch coveted the patents held by tiny Gemstar International. He launched a \$2.8 billion takeover to buy the company, headed by Henry C. Yuen, a onetime math professor whose patents put him at the forefront of the emerging business of creating on-screen program guides.

At the time, Murdoch backed down, merging his *TV Guide* magazine with Gemstar to give the 56-year-old Hong Kong native a company that had \$1.4 billion in sales by 2001. Now, though, this marriage looks headed for divorce. In recent weeks, sources in both companies agree, Murdoch has been pushing for Yuen to leave the company he founded in 1986. Murdoch—whose News Corp. owns a 43% stake in Gemstar-TV Guide International Inc.—put heat on Yuen over one top executive, in-

stalled another from News Corp.'s Fox TV unit to help restructure Gemstar, and has taken a stronger role in overseeing the company. Murdoch's aim, say those close to the media mogul, is to force Yuen out three years before the contract he signed in 2000 expires.

News Corp. and Gemstar executives wouldn't comment on intercompany relationships. But Murdoch's unhappiness is clear. Gemstar "is a real disappointment," he said during a May 14 conference call, in which he announced a \$4.2 billion News Corp. writedown of its Gemstar investment. "We are taking a much more active role in preserving the value of this powerful asset."

Gemstar's assets are some 200 U.S. patents, including those that allow cable- and satellite-TV operators to put program listings on a screen. Yuen has been trying to launch a channel that also de-

livers advertising and shopping. *TV Guide's* circulation has fallen to 9 million, from 10 million a year ago, and cable operators have been slow to roll out interactive programming guides.

And Gemstar's problems are piling up. A case brought by the U.S. International Trade Commission could invalidate some key Gemstar patents. A decision is expected by June. In April, Gemstar also announced that it had recorded as revenue \$107.6 million in license fees from top box maker Scientific-Atlanta, that it hasn't collected, pending a lawsuit between the two companies. I said it had recorded an additional \$10 million in ad sales from a sports season but neglected to disclose that the purchase came from money the season got for selling patents to Gemstar. The company says its outside auditors, PricewaterhouseCoopers LLP, approved the accounting. Sources say Murdoch and News Corp. CFO David DeVoe made Yuen disclose when they learned of it, and both Gemstar's accounting department. The result: Gemstar shares, at \$76 when the merger closed, now trade below \$10.

Murdoch also pushed Yuen to resign co-President Peter C. Boylan III. A tough negotiator, Boylan had stormy relations with cable operators, whom Gemstar needs to roll out the *TV Guide* Interactive channel. Boylan was replaced with a 37-year-old Jeffrey Shell, a onetime investment banker who had been running cable operations. "We have repaired ahead of us," Shell conceded in a recent call to investors. Boylan, now running a new interactive-TV company for dealer John Malone, said he resigned to "spend more time with my family and embark on new challenges."

Murdoch, who joined the Gemstar board late last year, along with his son Laughlin, News Corp.'s deputy chief operating officer, intends to increase the pressure on. But Yuen, who studied martial arts in high school and is known for waging fierce legal battles to protect his patents. He also owns 8% of the company. More importantly, he has the right to name half of Gemstar's 12-person board and can serve as the tie-breaker. Yet Murdoch is on strong at a tense Gemstar board meeting in May and isn't likely to ease up. Nor will Yuen. Gemstar shareholders, meanwhile, can do more than watch as this unhappy corporate marriage winds down.

By Ronald G. Moore
in Los Angeles

WHY RUPERT WANTS TO FORCE HENRY OUT

- ▶ Gemstar shares are off 80% since July, prompting News Corp.'s \$4.2 billion writedown
- ▶ Falling circulation at *TV Guide* and the sluggish rollout of interactive programming guides have slowed growth
- ▶ Gemstar booked revenues from licensing deals that it never actually received
- ▶ Relations with its most crucial customers—cable operators—are strained
- ▶ News Corp. execs claim Gemstar underplayed an upcoming ruling by the International Trade Commission that could weaken its patents

COMMENTARY

By Spencer E. Ante

IT'S TIME TO CASH IN SOME CHIPS, BIG BLUE

If IBM's new chief executive, Samuel J. Palmisano, had any remaining hopes of a honeymoon, they were dashed at a May 15 meeting with financial analysts. Palmisano told Wall Street his two biggest problems were the PC and hard-disk drive businesses. But the analysts ignored all that and grilled the CEO on what they consider IBM's biggest headache: semiconductors.

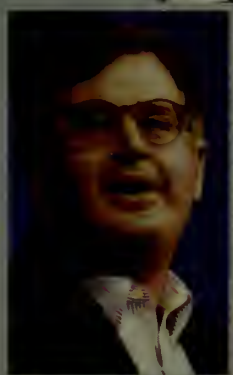
Wall Street is right: The global chip slump is dragging down IBM's bottom line. On Apr. 8, Big Blue admitted to investors that earnings could fall far short of expectations. The biggest culprit was the chip operation, known as the microelectronics group. Even though semiconductors account for only 5% of IBM's \$86 billion in revenue, the high fixed costs of chip manufacturing mean any revenue slide pummels profits. In the first quarter, this division posted a \$138 million pretax loss, according to Goldman, Sachs & Co.—on top of a \$184 million loss for the second half of last year.

So as the chip slump drags on, with recovery unlikely before next year, what does IBM do? It pushes ahead with its

biggest investment in years. This August, the company plans to reopen a state-of-the-art chip plant in East Fishkill, N.Y., that it has refurbished to the tune of \$2.5 billion. That's on top of another \$2.5 billion investment to expand and upgrade

chip plant and equipment that was announced in October, 2000, at the height of the boom.

IBM execs have said that Fishkill will double to triple Big Blue's chip capacity over the next year as the plant ramps up to full production. When the CEO was asked at the May meeting what IBM was thinking,



PALMISANO



even Palmisano conceded: "We need to make some adjustments."

Just what those adjustments are is the subject of intense speculation. But while many experts believe he should slash chip capacity in old plants, Palmisano seems reluctant to make any big changes. Like Chairman Louis

V. Gerstner Jr. before him, the new CEO believes IBM's innovative silicon technologies give its products an edge. What's more, any retrenchment would be a confession that the company's decades-long, multi-billion-dollar semiconductor research investment isn't

paying off. Palmisano's point about cutting-edge technology is well-taken. His mistake is using that to justify hanging on to unproductive plants.

Consider Big Blue's main chip factory, in Burlington, Vt. Its aging production lines are running at 30% to 50% utilization rates. Many analysts assumed IBM would sell the plant.

But on May 21, IBM Senior Vice-President John E. Kelly told *BusinessWeek* that Burlington stays. "I'm going up Thursday to meet with my 700 top managers to tell them [the rumors] are not true," he confided.

Instead of slashing, IBM's plan is to make a series of minor cutbacks, while trying to lower its cost of capital through partnerships with chipmakers such as Sony, Samsung Group, and Infineon Technologies. And Palmisano hopes to turn Fishkill into a high-volume chip foundry, using new technologies to design and build advanced chips for its customers. "In the future, years ahead, this can be a tremendous opportunity," says Kelly.

But IBM may not have the luxury of waiting. Indeed, Palmisano's whole plan seems out of sync with industry realities. Cross-border partner-

ships aren't a new idea. And promising technologies IBM pioneered, such as copper wiring on chips, are no longer unique to IBM. As for foundries, the world is awash in contract-manufacturers—in Taiwan, Korea, and soon, China. "With current demand, there's no way they can fill this [Fishkill] plant," declares Mario Morales, vice-president for semiconductor research at International Data Corp.

Which brings us back to Burlington. Even though the company laid off 501 of 8,500 workers there, total head count in microelectronics is still at 20,000, unchanged from the end of 2000. Kelly admits that more cuts are necessary—but he insists that "it's not massive portions of the place."

Whether it's Burlington or other plants with aging technology, IBM needs to downsize its least profitable chip assets. And Palmisano and Gerstner already have a model for that. In April, they announced plans to sell IBM's hard-disk drive business to a joint-venture with Hitachi Ltd. By any reasonable calculation, Big Blue's old chip lines should be next.

FISHKILL, N.Y.: IBM has put \$2.5 billion into this chip plant

SILICON SLUMP



Ante covers IBM from New York.

EDUCATION

EDISON: HOW BIG A BLOW TO SCHOOL CHOICE?

Most for-profits are less ambitious—and still in the game

The recent woes of Edison Schools Inc. seem to spell bad news for the emerging business of running public schools for profit. As the industry leader, Edison gave school privatization its biggest boost yet in mid-April, when a reform commission voted to give it control of 20 of Philadelphia's worst-performing schools.

But the victory was quickly eclipsed by problems, capped by the May 14 settlement of a Securities & Exchange Commission investigation into Edison's aggressive accounting, that have driven the company's stock price down by more than 90% this year, to \$1.30. Shut out of the public markets, Edison now must raise up to \$50 million from private investors in coming weeks. If it fails, the New York-based company could lose the Philly contract and even be forced into bankruptcy.

Still, Edison's travails hardly spell the end of the privatization movement. The reason: Most of the other companies don't try to take over troubled public schools, a daunting business that accounts for about half of Edison's \$525 million revenues. Running existing schools like those in Philly means turning around some of America's worst schools. It's also a direct challenge to the jobs and authority of education officials and teachers' unions. If Edison loses the Philadelphia contract, which is far larger than any it has landed so far, this side of the privatization business could be stopped cold.



It's a much easier assignment to run charter schools or private ones—the aim of most other for-profit education companies. **PHILADELPHIA:** *Protesting Edison's contract award*

Charter schools usually start from scratch, using public money but operating with far more freedom than traditional schools. Half a dozen school operators now have revenues of \$100 million or so, and some are already turning a profit by managing charter or private schools (table). The revenue of for-profit charter operators should hit \$890 million this year, up 10% from last year, according to market researcher Eduventures Inc. "We're not trying to turn around something that's badly broken," says Peter Ruppert, president of National Heritage, which runs 28 charter schools.

Edison, on the other hand, has lost a total of some \$260 million since its 1992 founding. CEO H. Christopher Whittle remains optimistic: "We'll raise the mon-

ey to open the schools in Philadelphia," he insists. "There's absolutely no chance that we'll survive." Still, Whittle concedes he needs to slow growth and cut capital spending to get to profitability, which he now hopes to reach in 2003. Excessive spending has been the ruin of Edison, from the small fortune it poured into developing a curriculum to the computers it gives most students. Compared

with public schools, "they pay high salaries [to executives] and have huge marketing expenses," says Henry M. Levin, director of Columbia University's National Center for the Study of Privatization in Education.

Other for-profit companies take a more modest approach. They face smaller political battles and their business models are less costly. Most also have grown more slowly than Edison, consuming less capital and reaching profitability faster. National Heritage has built a network of schools in just two states so far, bringing economies of scale that helped it break even the black last year. National Learning Communities Inc.

only other publicly listed school operator has been profitable since 1992, while saica Education Inc. and Chancellor Academies Inc. say they are close to making a profit.

As long as the charter-school movement continues, the for-profits should prosper. Right now, they manage more than 15% of the country's 2,400 charter schools, a figure that will approach 3,000 this fall, according to the Center for Education Reform, a Washington privatization-advocacy group. Given the sorry state of many public schools, "parents aren't about to stop clamoring for choice," says Chancellor-Beacon CEO Flavio J. Visiedo. For all their growing pains, most of the for-profits offer a way to get it.

By William C. Symonds in Boston

FOR-PROFIT SCHOOLS: CLASS STANDINGS

EDISON SCHOOLS

Size 74,000 students, 133 schools
Revenues \$525 million*
Status Fighting to remain afloat, with stock down more than 90% this year. Has lost more than \$260 million since 1992.

NOBEL LEARNING COMMUNITIES

Size 25,000 students, 174 schools
Revenues \$160 million
Status Profitable Nasdaq-listed outfit runs private, charter, and special schools, such as those for the learning-challenged.

NATIONAL HERITAGE ACADEMIES

Size 14,000 students, 28 schools
Revenues \$100 million*
Status Private company says it's making money. Its schools stress uniforms, discipline, parental involvement.

MOSAICA EDUCATION

Size 11,000 students, 40 schools
Revenues \$70 million
Status Acquired troubled Advantage Schools last year. Raised more than \$100 million from Fidelity, U.S. Trust, others.

*Estimated



WHITTLE: *Undaunted*



Aetna HealthFund.™

People want a change in health care. They want more control, more choice, and less red tape. At Aetna, we're providing your customers with a new option - Aetna HealthFund. HealthFund offers the comprehensive coverage of a traditional

Trusting

health plan, plus an employer-paid health savings account which allows members to choose the services they want. They can see any doctor. Go to any hospital. In or out-of-network. And any unused dollars in

people to make their

the fund can be carried over to provide additional plan coverage the following year. Aetna is the first full-service health insurer to offer a plan like it. New options and innovations for you and your customers. That's the new Aetna.

own decisions.



Turning Promise into Practice

Health • Dental • Disability • Life • Long-Term Care

EDITED BY MONICA ROMAN

IMCLONE'S BOSS BOWS OUT

SAMUEL WAKSAL FINALLY threw in the towel. The flamboyant 54-year-old CEO and founder of ImClone Systems resigned on May 22. The move was an acknowledgment that Waksal's presence at the helm is overshadowing any progress that the New York biotech company's stalled cancer drug, Erbitux, is making. He was replaced by his brother, Dr. Harlan Waksal, 49, ImClone's COO and a co-founder. Sam Waksal has taken much of the blame since the Food & Drug Administration rejected the approval application for Erbitux in December because of incomplete data. Mixed results from a number of Erbitux trials reported on May 21 indicate the drug still has a long way to go before it might win approval. ImClone partner Bristol-Myers Squibb is now planning three large clinical

trials of Erbitux in an attempt to save the drug.

MSN TO AOL USERS: COME HITHER

WITH BUSINESS SLOWING AT America Online, Microsoft's MSN Internet Access launched a new offensive to spirit customers away. On May 21, MSN began offering AOL subscribers free tools to shift their AOL mailbox, address book, and calendar to a new MSN account. Switchers can also forward their AOL e-mail for a month. Additionally, MSN extended a \$50 rebate to AOL subscribers who switch through June 30. MSN plans to spend \$10 million on a marketing campaign. But AOL isn't worried. Says spokesman Andrew Weinstein: "This is nothing new. We've seen similar campaigns before."

CITIGROUP'S GOLDEN STATE OPPORTUNITY

CITIGROUP SAID ON MAY 21 IT would buy San Francisco's Golden State Bancorp in a stock and cash deal worth \$5.8 billion. The move cements Citigroup's presence in California, adding more than 350 branches there and \$54 billion in assets. Golden State is the parent company of California Federal Bank, First Nationwide Mortgage, Cal Fed Investments, and Auto One Acceptance. Citigroup President Robert Willumstad hinted that the deal would be followed by others in selected markets. Citigroup has a small presence in Florida and Washington, D.C., and plans to expand its franchise in those markets.

AN OLD FORD HAND IS RECALLED

THESE DAYS, BACK TO BASICS in the auto industry sometimes means the return of retired executives. The latest is

HEADLINER: MILLARD S. DREXLER

A GAP AT GAP

GAP CEO MILLARD S. "Mickey" Drexler is calling it quits. On May 21, Drexler, who has faced two years of sharp sales declines, sliding profits, and rapid management turnover, said he will retire once the retailer finds a successor.

Long known as a savvy merchandiser, the 57-year-old Drexler pulled Gap out of a slump in the mid-1990s. But this time around, he hasn't had much luck as the company has stumbled on everything from fashion trends to marketing and distribution. He also expanded far too aggressively at the chain, which includes Ba-

nana Republic and Old Navy in addition to the flagship Gap stores.

"This company is large today that it needs a different style of management than the company is getting, and Mickey recognized that," says Gap Chairman Donald G. Fisher. Wall Street sent Gap shares down 15%, to \$13.55, on May 21 in response. Gap is seeking a successor with plenty of operational expertise—though retail experience isn't necessarily required. Still, he or she had better like hawking T-shirts and khaki pants.

Louise



CLOSING BELL

BIG BANKROLL

Redback Networks' stock shot up 19% on May 22, to \$2.69, after mobile-phone powerhouse Nokia spent \$36 million for a 10% stake in the telecom-equipment maker. Redback has been struggling in the wake of the telecom slowdown, and investors hope Nokia will help Redback sell more in Europe and Asia.



Allan Gilmour, 67, reprising his role as Ford Motor vice-chairman and chief financial officer—the carmaker's third CFO in a year. Wall Street analysts, who have voiced concern about Ford's financial controls, applauded the seasoned addition to CEO Bill Ford Jr.'s management team. Ford shares rose 9% in the three days following his arrival. Still, Gilmour, who spent the years since his 1995 retirement as a car dealer, director on several corporate boards, and a gay-rights spokesman, will have his hands full reining in Ford's runaway costs.

company's drug-coated J&J is leading rivals Guidant in developing a stent, with a drug coating aimed at preventing the stents from reclogging. J&J's drug-coated stent has a lower reclogging rate than the bare metal stent, it could completely eliminate the problem. That could give competitors an opening in what analysts say may become a \$1 billion market. "It's a good product, but it's not perfect," says Larry Feinberg, managing partner at health hedge fund Oracle Partners.

WHO CAN MAKE THE BEST STENT?

COMPETITION IN THE MARKET for stents—metal devices used to prop arteries open after angioplasty—is heating up. On May 22, Johnson & Johnson presented data in Paris on the

ET CETERA...

- Intel released three sets that could shave the cost of PCs by as much as \$50.
- Ex-Arthur Andersen partners and staffers for Huron Consulting Group.
- Chicago-based online technology company Orbitz has filed with the SEC to go public.

RICHARD S. DUNHAM

SEPTEMBER 11 WARNINGS: THE DAMAGE FROM TOO MUCH DAMAGE CONTROL

It didn't take long for the White House to try blasting the new news about September 11 warning signs off the front page. Vice-President Dick Cheney cautioned on May 19 another terrorist attack was a near certainty. Two days later, Defense Secretary Donald H. Rumsfeld said terrorists "inevitably" will acquire and use nuclear, chemical, or biological weapons. And the FBI reported late-May threats against New York landmarks such as the Statue of Liberty.

While predictions of future mayhem may have defused the first political crisis of George W. Bush's Presidency, the effect of revelations that Bush was misled last August about possible al Qaeda hijackings will be felt in the months ahead. Instead of deflecting blame for more congressional oversight of intelligence agencies and a Cabinet-level homeland security office accountable to the Hill, the Bushies may have increased support for both.

In the short term, the President's popularity remains high. But the increased attention on terrorism warnings in the past and present, will distract him from politically sensitive domestic issues. And emboldened Democrats challenge him on defense and security matters. "The aura of invincibility has been punctured," says American University historian Allan J. Lichtman. "The core of this Administration has been the war on terrorism, so it goes to the heart of everything he does."

Caught in the crossfire is National Security Adviser Condoleezza Rice. Her image as a tough, savvy counselor was shattered May 16 by her jittery defense of the Administration at a press briefing. While most foreign-policy vets believe she's a victim of Monday-morning quarterbacking, Dems seek payback for years of GOP charges that Bill Clinton neglected homeland security. "It's sure looking like the Clinton 'hollowed-out

military' is doing better than the Bush A-team foreign-policy crowd," says ex-Clinton political guru James Carville.

More evidence of a new mood on the Hill: a growing movement to give Homeland Security Director Tom Ridge broad powers and budget authority. One convert, Senator Olympia J. Snowe (R-Me.), says Cabinet-level status is needed "to prevent the type of bureaucratic snafus and failed coordination that have hampered our efforts to protect the homeland."

While the White House hasn't ruled out statutory authority for Ridge, it sees Democratic mischief-making behind efforts to create a blue-ribbon panel to review pre-September 11 intelligence gathering. When House Minority Leader Richard A. Gephardt (D-Mo.) announced his support on May 21 for the proposal by Senators John McCain (R-Ariz.) and Joseph I. Lieberman (D-Conn.), GOP partisans responded harshly. "It is my hope that Dick Gephardt would choose the path of patriotism over politics," said Republican Governors Assn. Chairman John G. Rowland of Connecticut.

Indeed, despite talk of wartime unity, politics is never far from the surface. Republicans worry that their advantage on the terrorism issue might be weakened now that 68% of Americans say the Administration should have disclosed the hijacking warnings earlier, according to a May 16 Gallup Poll. And Dems are hoping that a distracted President won't be able to shape the domestic agenda for the 2002 elections, from prescription drugs to corporate crime.

If a new round of attacks comes and post-September 11 measures seem inadequate, Bush faces even bigger political risks. The blame game then will make the current uproar seem like a fender-bender flap in a strip mall parking lot.

With Stan Crock



WINGED: Rice faltered in her press briefing

CAPITAL WRAPUP

CORPORATE CRIME POLITICS

Democrats are hoping to turn the tide of corporate scandals into a winning issue in the 2002 elections. There are some early signs of optimism: 60% of Americans say the Administration "always seems to do what the big corporations want," according to a May 14-16 Democracy Corps poll. And many say Bush policies have led to business abuses. But the Dems aren't rested much more: Voters give them a one-point edge when it comes to handing up to the special interests.

NO MORE ULLICOs!

► To counter the AFL-CIO's "No More Enrons" campaign, a union watchdog is targeting labor leaders who made millions in profits from ULLICO, a union-backed insurance company that invested heavily in now-bankrupt Global Crossing. The conservative National Legal & Policy Center wants two ULLICO directors, Presidents Morton Bahr of the Communications Workers and Douglas McCarron of the Carpenters, to testify before Congress. But the attack on McCarron is not en-

dorsed by the White House, which is trying to woo the union chief.

SECURITY vs. JOBS

► Businesses are investing in new technologies in the name of homeland security. But West Coast dock workers say the technology push by ship owners in the Pacific Maritime Assn. is a ruse. The carriers argue that technology to track cargo would speed processing of containers, reducing the opportunity to tamper with them. The longshoremen, whose contract expires July 1, say owners want to ax jobs.

TALE OF A BUBBLE

How the 3G fiasco came close to wrecking Europe

Martin Bouygues thought he was the only sane man left in Europe. The cautious Frenchman ran Bouygues Telecom, France's No. 3 cell-phone network, and in the spring of 2000, he was under intense pressure to bid billions of euros for licenses to operate the so-called Third Generation (3G) of mobile networks. The technology behind 3G was certainly intriguing: It would turn a cell phone into the ultimate portable computer, the key to the mobile Internet. But shelling out billions just for a license in an unproven technology? To Bouygues, the scion of a French construction empire, this was sheer madness and would bankrupt the entire European telecom industry.

So on May 6, he sat down to write a letter, a warning to the entire Continent. Three days later, it appeared on the front page of *Le Monde*. Many operators faced a grim choice, wrote Bouygues, between quitting the business—the price of not bidding for a license—or drowning in debt. “What should I tell my employees?” wrote Bouygues. “That we have a choice between a sudden death and a slow one?”

Few heeded Bouygues' warning. But

sure enough, in the two years since he wrote that letter, the easy money has dried up. Europe's phone giants—after spending half a trillion dollars on licenses, acquisitions, and networks—are treading madly to stay afloat in a sea of debt. Chairman Ron Sommer of Deutsche Telekom is sitting on \$60 billion in liabilities. Onetime golden boys, such as Vivendi Universal's Jean-Marie Messier and France Télécom's Michel Bon, are struggling to hang on to their jobs. Nokia Corp. Chairman Jorma Ollila has seen his high-flying stock fall by 75%. Even Vodafone Group PLC's Chris Gent, 3G's biggest cheerleader, has fallen hard. In early 2000, he barely broke a sweat putting together \$163 billion for his stock-and-cash takeover of Germany's Mannesmann. Now, Vodafone directors are debating whether to take a write-down on \$25 billion to \$50 billion of acquisitions purchased at the top of the bubble.

And the mobile Internet? Oh...that. In fact, the high-speed project known as 3G is plowing ahead. Throughout Europe, phone companies are testing the handsets that as early as next year will be able to shuttle data at the speed of a

broadband connection—or even faster. But this time around, there won't be blowout launch parties. Europe's telecom industry has discovered that when it is mentioned, investors run. “3G is a frightening word,” says Roel Pieper, former executive at Philips and now president of Favonius Ventures, an Amsterdam venture-capital firm.

What happened? Nothing less than a Continental debacle. This project, a new, high-speed wireless Internet, Europe's audacious bid to lead the world in a crucial 21st century technology, 3G has stumbled from the get-go, not just of miserable market conditions but also of a host of local problems, from shortsighted and greedy national politicians to a regional policy imposed a single expensive technology and pushed all countries to adopt it lockstep. Compounding the damage, the industry built on transmitting the signal has failed utterly to create services that customers will buy. The industry has not been looking at the user,” laments Niklas Savander, president for mobile software at Nokia. “It's been looking at its own navel.”

True, Europe has plenty of com-

The Mighty Have Fallen

NOKIA

THEN With a steady flow of new networks and nifty handsets, the Finns were positioned to be the colossus of the next Internet.

NOW Growth is slowing, the 3G market is swooning, and Nokia faces a brutal software battle with Microsoft in Web applications and handsets.

VODAFONE

THEN The only global wireless operator, Vodafone could stake a claim to 100 million customers—and sell them virtually everything.

NOW Stitching together dozens of foreign phone companies is a bear. The key now is to make money on voice. The mobile Net? Put it on hold.

DEUTSCHE TELEKOM

THEN DT had the biggest Net service in Europe and was stretching across the Atlantic with a \$50 billion buyout of VoiceStream.

NOW With \$60 billion in debt, Sommer would likely unload VoiceStream—if only there were any buyers. His grip on the top job is loosening.

FRANCE TELECOM

THEN With a \$36 billion buyout of Orange, Bonneted a better brand than his own. But did he get the Prime Minister's O.K.?

NOW Besides Orange, Bonnet's buys are duds, from Germany's wireless to British cable. With a new government, Bonnet's post could hinge on his rapport with Chirac.

IS GENT
phone may
e down as
h as \$50 billion

ica had its dot-com
sion, and the U.S.
e business is wading
gh its own crisis. But the
World has no computer in-
y to fall back on and, with
xception of Germany's SAP,
also-ran in software. From
and Ericsson to Vodafone and
ache Telekom, the phone biz is
soul of Europe's tech industry.
of these companies was intent on
g 3G to global stardom.
d what do they get for it? Technol-
delays, ballooning debt, downgrades
eir bonds, and swooning stocks. The
on is even fast losing its edge in
ess. "The balance of power is shift-
across the Atlantic, to Microsoft
and other companies that under-
l applications," says Keith Woolcock,
alyst at Nomura Securities Co. in
lon.

ssi Vanjoki, Nokia's executive vice-
dent, remembers his first notion of
mobile Web. It was 1993, and Vanjo-
y one of his new hires hunched over
ange-looking database on his PC and
d him what it was. Turned out the
omer was online, using the Gopher
h engine to browse through the li-
brary at the

MICHEL BON
France Télé-
com's CEO
is strug-
gling to
keep
his
job

phones?"

Across Scan-
dinavia, lots
of engineers
were hav-
ing similar
thoughts.

And what
seemed

like a fantasy in '93 was
downright mainstream by
mid-decade. And as Europe's labs pieced
together 3G prototypes, the Internet
was developing into a consumer busi-
ness and Web startups such as
Netscape Communications Corp.
were hot stocks.

So Europe prepared to create
a Continental network on a sin-
gle 3G standard. A decade ear-
lier, similar central planning
had helped transform the re-
gion into the world's richest
wireless market.

But the mobile Net
would prove far trickier to
orchestrate. In the cell-
phone business, operators sim-
ply invested in networks and sold

handsets and subscribers produced
their own content just by talk-
ing. But 3G phones may well
cost \$800—and devour batter-
ies. Worse yet is band-
width's dirty secret:
Without compelling
content and services
to sell, high-speed
networks are a
waste of money.
"The [phone com-
panies] are paying
through the nose for some-
thing that's not very valuable," says
Francesco Caio, founder of Omnitel, an
Italian mobile company now owned by
Vodafone.

The Europeans, of course, knew that
software was crucial. In the late 1990s,
planners in Scandinavia settled on a two-
pronged strategy. First, in 1998, they
teamed up with the phone manufacturers
in a London joint venture dubbed Sym-
bian. This company would provide operat-
ing systems for 3G phones. The clear
goal: to keep Microsoft from hollowing
out the profits in the next Internet. "We
understand mobility. Microsoft doesn't,"
said Juha Christensen, Symbian's first
marketing manager.

At the same time, the Europeans
counted on venture capital to seed soft-
ware startups that would produce the
games, news services, and e-commerce
programs to bring the mobile Web alive.
The VC funds arrived as scheduled—
and shook up entire societies. In Stock-

holm, students at the Royal
Academy of Economics started to
drop out en masse and write wireless
business plans.

The 25-year-old Per Mosseby typi-
fied the trend. In 1998, he launched
Melody, a Stockholm software company
specializing in business applications for
the mobile Web. Within a year and a
half, he landed \$10 million in venture fi-
nancing. And yet for Mosseby and hun-
dreds of other Netrepreneurs, the tim-
ing was off. They were writing code
for a mobile Net that barely existed.

For most, the money ran
out long before the first
3G transmission towers

JORMA OLLILA

Once-formidable

Nokia has seen

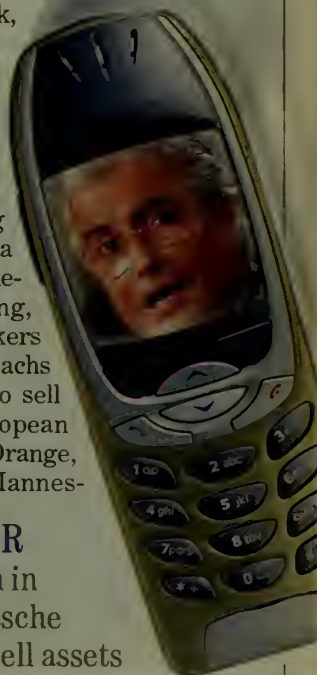
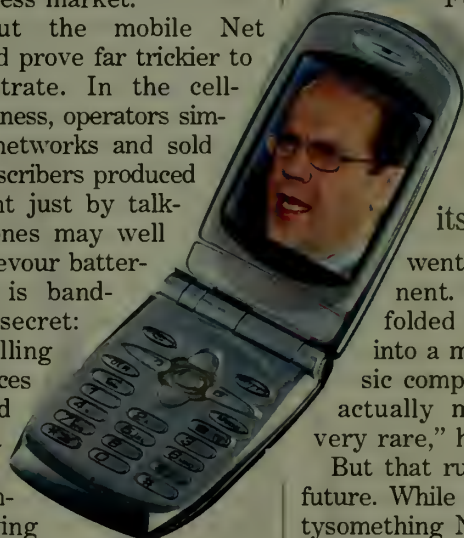
its stock plummet 75%

went up across the Old Conti-
nent. Early this year, Mosseby
folded what was left of Melody
into a more successful mobile-mu-
sic company, Mobilehits. "They're
actually making money, which is
very rare," he says.

But that rude awakening was in the
future. While Mosseby and other twen-
tysomething Netheads were landing VC
funds, their elders were gambling for
bigger stakes. On the night of Oct. 19,
1999, Canning Fok,
managing direc-
tor of Hong
Kong's Hutchison
Whampoa Ltd.,
pulled off the
sale that would
ignite a buying
frenzy. Following a
week of round-the-
clock negotiating,
Fok and his bankers
from Goldman, Sachs
& Co. managed to sell
Hutchison's European
phone business, Orange,
to Germany's Mannes-

RON SOMMER

With \$60 billion in
liabilities, Deutsche
Telekom must sell assets



mann for \$30 billion. Fok celebrated the deal with his bankers at 3 a.m., ordering hamburgers with onions at London's Sheraton Park Tower Hotel and washing it down with Chateau Petrus.

The chain reaction had started. Buying Orange put the German carrier into direct competition with the titan of Europe, Vodafone. This would unleash the biggest hostile takeover in history. The Orange deal not only provided Mannesmann Chairman Klaus Esser with a new market but also amounted to a \$30 billion poison pill. Mannesmann, he concluded, was now too big to be swallowed. But the very night of the takeover, Vodafone's Gent summoned his bankers and organized his counter-strike.

What followed was a pitched two-month takeover battle. The race between Gent and Esser focused almost exclusively on the companies' stock valuations. Vodafone stock, after all, was Gent's currency, and a rich stock was Esser's defense. In this battle, both men drove up their stocks by positioning their companies as future masters of the mobile Net. In the end, Gent won by securing an alliance with Vivendi's Jean-Marie Messier. Together, they promised to deliver the entire digital world—television programming, music, e-commerce, cell phones—from a single portal called Vizzavi to some 70 million subscribers. Vizzavi would provide services, said Gent, "through any device that accesses the Internet, to anyone who chooses to use it, wherever they may be." Vizzavi has since fallen flat in the marketplace. But its announcement helped drive up Vodafone's stock, securing the Mannesman deal.

More important than Vizzavi, though, was its implication. To deliver those Internet services, telcos needed big chunks of the digital economy, from pure net plays to cable-TV stations. And in this period of plenty, they bought like mad.

Take France Télécom. In Britain alone, Chairman Bon spent more than \$40 billion to buy Orange from Vodafone, gobble up Britain's leading Internet service company, Freeserve, and 18% of the cable company NTL. Deutsche Telekom's Sommer matched him, buying Internet businesses in France and the U.S.'s VoiceStream for nearly \$50 billion. "We all had easy money," says Bon.

Then came a surprise. It started in March, 2000, with a handful of British bureaucrats in a single room in London. They had 13 phones, one for each bidder for British 3G spectrum. The Blair government imported the American auction system, judging it the most transparent way to run a contest.

Reducing the 13 bidders to five survivors took seven

weeks and an exhausting 150 b rounds. It produced a windfall for coffers and a disaster for the industry. Martin Bouygues had noted in France the loss in the auction was seen as a sentence. "If we dropped out, our cap would fall by far more than the of the license," said an exec at S Telefónica at the time.

There was one crucial difference though. Operators would pay for licenses in cash, not high-flying stock. As the licenses passed \$1 billion per license and then \$2 billion, \$3 billion, and \$4 billion, investment bankers put aside their carefully conceived cash-flow models. In a race for survival, as the London auction appeared to be, numbers were meaningless. "The bidding is not based on rational decisions," said one American banker advising Vodafone.

Officials at Nokia and Ericsson were getting alarmed. The auctions could drive small players out of the cellular market and force even big ones to slow down spending. "I went to Chris Gent and told him it was madness," says a Nokia executive. "He shrugged and said, 'can you do?'"

At the London auction, investors ignored not only the numbers but also early evidence that the mobile Internet was going to be a tough slog. Already, the smart phones were hard to come by in Europe. Their manufacturers hoped to replicate the success of i-mode in the mobile service offered in Japan by a phone of

Riding the 3G Roller Coaster

MSCI EUROPE TELCO SERVICES INDEX
DEC. 31, '98=100

Data: Bloomberg Financial Markets

JAN. '99
111.99

DEC. '99
162.88

FEB. '00
184.35

MAR. '00
179.70

APR. '00
154.01

NOV. '99
133.95

JULY '00
129.98

SEPT. '00
107.3

JANUARY, 1999 Vodafone stuns Bell Atlantic by out-bidding it for San Francisco's Airtouch Communications. The \$63 billion deal inaugurates Europe's global push in wireless.

MARCH, 1999 Japan's NTT DoCoMo launches mobile Internet service i-mode. It takes the country by storm and sparks interest elsewhere in the mobile Internet.

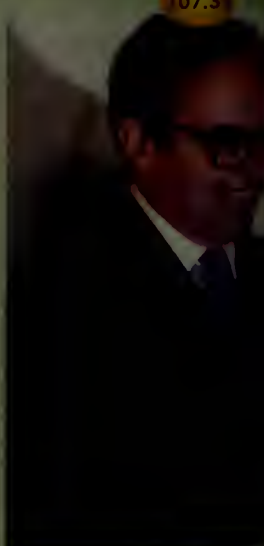
NOVEMBER, 1999 After Germany's Mannesmann buys Orange in a \$28 billion deal, Vodafone makes a hostile bid for Mannesmann. Investors bid up the price of the stock deal to \$163 billion, a world record.

DECEMBER, 1999 The first WAP phones come out in Europe—and they're a big disappointment to users. The phones are both slow and buggy. Problems are attributed to early glitches.

MARCH, 2000 Riding wireless-Web euphoria, stocks skyrocket. Together, Europe's top seven telcos surpass \$1 trillion market capitalization.

APRIL, 2000 Bidding for 3G licenses in Britain reaches \$33 billion, a windfall for the Blair government. Finance Ministers throughout Europe lick their chops.

JULY, 2000 German auction raises \$45 billion, but some companies are showing signs of concern. Hong



The [telcos] are paying through the nose for something that's not very valuable," says Omnitel founder Caio

DoCoMo. Yet compared the zippy i-mode, Europe's ces were primitive. In 2000, at the massive Cebit technology fair in Hanover, Germany, Alcatel officials displayed a map of Paris that looked, like the tiny black-and-white screen of a sample cell phone, like a satiating amoeba. The service failed to adjust to changing users—key issues in Europe. German travelers in Spain could check weather and movie schedules back home in Frankfurt but nothing for Madrid. The service was mobile, but the service usually was not.

The turning point for Europe's wire- industry came in Germany, where a group of banks pledged a total of \$45 billion for precious spectrum. The U.S. dot-com bubble had burst four months earlier and some of the new skepticism was spreading across the Atlantic. Halfway through the auctions, Hutchison Whampoa stunned his partners, NTT DoCoMo and Royal KPN, by withdrawing from Germany. "It was just too much money," said Fok.

While the investment bankers considered their dubious handiwork, the rating agencies downgraded the ballooning debt of France Télécom, Deutsche Telekom, and KPN. Operators slammed the brakes on spending. These days, it's as if Europe's mobile Net existed solely as a footnote in a debt story.

Worst of all, in the more than two decades since those phones were introduced, Europe's offerings on the mobile have barely improved. To be sure,



NOKIA LAB Letting users make their own content

European telcos have slowly upgraded their systems for a faster data service known as 2.5G. But as if embarrassed at the hype they generated during the bubble, they barely promote the services. Instead, they focus on dependable revenue generators such as voice calls and the primitive short-text messages so popular among kids.

Martin Bouygues had the last laugh. To entice him to even bid for a license, the French government had to slash the fees from \$4.4 billion to \$557 million. Bouygues plans to roll out his new network—slowly. Meanwhile, the leading company to trumpet its 3G offering in Europe is foreign. Hong Kong's Hutchison, which kept a European presence after selling Orange, is proceeding on a long-shot plan to roll out the high-speed service late this year in Britain. And after two years at Europe's ambitious software startup, Symbian, Juha Christensen tired of the feuding among the

partners and went to work for the arch-enemy, Microsoft. "These guys understand the importance of applications," he says from his house in Seattle.

Nokia, Europe's only consistently profitable cell-phone maker, now appears to be bypassing Europe's application woes altogether. The goal now, building on the success of short messages, is to encourage users to create their own content. One new line of phones, for example, features digital cameras. The idea: Users will snap pictures and spend perhaps 75¢ to send them to a friend's phone or e-mail. "People have little moments in the day with time to kill," says Nokia's Savendar. "If we can sell them something for those spare 5

or 10 minutes, it could turn into a big market." Maybe. For now, though, analysts predict that 3G isn't likely to take off in Europe until the second half of this decade.

The mood is grim. Just ask Anssi Vanjoki. The Nokia executive was gunning his Harley-Davidson through Helsinki last fall and got nailed with a \$103,000 fine—the equivalent of 14 days of his stock-option-laden 1999 pay. (In Finland, speeders get fined according to their ability to pay.) Vanjoki appealed, noting that both the industry and his pay had taken a dive. The judge agreed—and this spring, lowered the fine to \$5,500. Thus have the warriors of wireless fallen. These days, even traffic judges pity them.

By Stephen Baker in Paris,
with Mark Clifford in Hong Kong

Kong's Hutchison Whampoa drops out.

SEPTEMBER, 2000 Rating agencies downgrade France Télécom, and later, Deutsche Telekom. Following a takeover wave and auctions, telecom debt accounts for 40% of Europe's syndicated loans.

APRIL, 2001 Losing billions on cellular phones, Ericsson looks for help. It spins off its handset division, creating a joint venture called Sony-Ericsson. Alcatel and Royal Philips Electronics also withdraw from a punishing market.

JUNE, 2001 With the global cell-phone market shrinking, Nokia issues a profit warning and sees its shares fall 20% in one day.

JULY, 2001 Expecting a shortage of handsets, Vodafone announces a delay of its 3G rollout, to 2003.

OCTOBER, 2001 DoCoMo starts limited 3G service in Japan. Lukewarm response.

DECEMBER, 2001 Global handset sales fall from 412 million in 2000 to 399 million in '01, the first slide.

2002 Vodafone faces pressure to write down as much as \$50 billion on its purchase of Mannesmann.

**VODAFONE'S GENT
AND MANNESMAN'S ESSER**

Data BusinessWeek



	Department	Location
elnick	A-1	15
ecela	F-5	2
Abraith	#8	3
ckner	G-13	2
Fray	B4	8
iz	H5	7
rdner	B2	4
Jones	A4	15
ARTIN	B1	8
mer	B4	9
Mail	C-3	3
legado	G10	2
4	#3	9

Name	Department	Location
Betsy Anderson	D3	1
Holly Wright	#6	2

YOU REALLY THINK I'M
GOING TO OPEN THIS
SIGN IT, PUT IT BACK,
WRITE SOMEONE ELSE
NAME ON IT, GET UP
FROM MY DESK AND
PLACE IT IN A SPECIAL
MAILBOX???

Of course not.



route.pdf

Adobe Acrobat 5.0 makes reliable document distribution possible.

Please, remain seated. Because new Adobe Acrobat® 5.0 makes it easier to distribute documents—both internally and with the outside world. The full version of Adobe Acrobat 5.0 allows you to deliver documents on time, looking exactly as intended. Simply convert your documents into the universally recognized Adobe PDF format and your file is ready to e-mail or post online. Your document can be viewed, read and printed on a variety of hardware and software platforms with the free Adobe Acrobat Reader—the one millions of users already have. Adobe Acrobat 5.0 even includes digital signature technology. Which gives you a more efficient way to make sure critical documents get signed and approved quickly. Try all that with a manila envelope. www.adobe.com/fullacrobat.



EDITED BY ROSE BRADY

FOR FRANCE'S SOCIALISTS, DORMANT TIMES ARE COMING

As the French Socialists' last hope. Even though center-right President Jacques Chirac won reelection in a landslide on May 5, leftists such as Socialist Party chief François Hollande have been predicting they'll make a comeback in the parliamentary elections. Their reasoning: After rallying support for Chirac against far-rightist Jean-Marie Le Pen, the Left is mobilized to capture a majority in the National Assembly, name a new Prime Minister, and compel Chirac to "abstain" again with a Socialist-led government.

But as the campaign cranks up for June 9 and 16 vote, the Socialists' chances for a majority are rapidly fading. Recent polls show the Right running ahead by as much as ten percentage points. One reason is that Chirac is using his bully pulpit to seize the initiative on the hot issue of law and order and to defend France's values—even publicly demanding an apology when rowdy fans rioted during the playing of *La Marseillaise* at a recent champion soccer game. Chirac also grabbed headlines by appointing a law-and-order czar, Nicholas Sarkozy, who is setting up special crime-fighting squads. And after his vanquished opponent, Prime Minister Lionel Jospin, resigned, Chirac named the center-rightist Jean-Pierre Raffarin to head the government. A pragmatist from the provinces, he is playing well with disaffected voters. Even worse for the Socialists, their party is grappling with an identity crisis. Jospin was knocked out of the presidential race after running as a moderate whose views were hard to distinguish from Chirac's. Now, the Socialists are swinging leftward, aiming at the more than 20% of all voters who cast ballots for Trotskyist, Communist, and Green presidential candidates. A new platform, crafted by former Labor Minister Martine Aubry, features left-wing crowd pleasers

such as raising the minimum wage and slowing privatization. But such measures threaten to alienate professionals and mid-level managers who often vote Socialist. "They could lose the middle class," warns Pascal Perrineau, director of the Center for the Study of French Political Life.

In contrast to the emboldened Right, the Left appears leaderless. That's ironic, because after five years of running the government, it has a stronger stable of nationally known politicians than the Right does. The problem is that heavy hitters such as Aubry and former Finance

Ministers Dominique Strauss-Kahn and Laurent Fabius are competing against each other for influence. That's why party leaders compromised by naming the competent but bland Hollande to lead the parliamentary campaign.

It all leaves voters scratching their heads over who would become Prime Minister if the Left were to win. Aubry is popular with the Socialists' left wing but is generally considered too abrasive to head a "cohabitation" government with Chirac. The Socialists' new hard-line platform would make it awkward for them to put forward a market-friendly figure such as Strauss-Kahn or Fabius.

With their chances looking increasingly grim, some Socialists privately argue that defeat in the parliamentary election should spur a badly-needed shakeup in the party. Strauss-Kahn and Fabius want the Socialists to hold a convention to jettison their hard-left positions and redefine themselves as reformist Social Democrats. But left-wing leaders such as parliamentary finance committee chairman Henri Emmanuelli warn that the party would "dig its own grave" by positioning itself in the center. In this election, the Left seems to be its own worst enemy.

By Carol Matlack in Paris



RIVALS: Hollande and Raffarin

GLOBAL WRAPUP

HELPING COLOMBIA CRACK DOWN

Alvaro Uribe, the hard-line favorite to win the Colombian presidential election—perhaps even in the first round on May 26—wants to up the ante in the war against Marxist guerrillas in the South American nation. And the Bush Administration is likely to give him a hand. The White House plans to cut the \$380 million aid budget for Colombia in fiscal 2002 to over \$500 million in 2003. That doesn't include an additional \$35 million being requested for the current year.

The money would be used to fight Colombia's entrenched drug industry. But the Bush team also wants to give Bogotá flexibility to shift funds from the war against drugs to combat guerrillas who control Colombia's drug-growing zones and who have waged a battle against the government for 38 years. That would mesh with Uribe's plan to double the size of the police force in a bid to end the insurgency. Uribe, 49, vows to take a much tougher line on the guerrillas and on drugs than outgoing President Andrés Pastrana, who tried in vain to negotiate peace

with the largest rebel group, the Revolutionary Armed Forces of Colombia.

ANTI-TERROR PACT IN ASIA

► The 10-nation Association of South-east Asian Nations agreed on May 21 to step up the war on terrorism. Malaysia, Singapore, and Indonesia will lead in training their neighbors in intelligence-sharing, airport security, and explosive detection. The pact could pave the way for a sweep of the extremist group, Laskar Jihad, which was implicated in recent bomb plots in Singapore and the Philippines.

AND THEN THERE WAS FIRE.



The IBM logo, consisting of the letters "IBM" in a bold, sans-serif font, with each letter made of eight horizontal stripes.

INTRODUCING E-BUSINESS ON DEMAND THE NEXT UTILITY

It starts as a marvel. It becomes a necessity. And when someone figures out how to deliver it reliably, affordably and simply, it changes our lives. It's been true for every utility. Now it's true for e-business. Introducing e-business on demand.™ Everything from infrastructure and applications to entire business processes, delivered via the Internet, controlled by you, but managed by IBM. It's The Next Utility.™ Will it change the world? Maybe. Your business? Certainly. Visit **ibm.com/e-business/ondemand** or ask for on demand at 800 IBM-7080.

RETAILING

LOWE'S IS SPRUCING UP ITS HOUSE

By appealing to women, it aims to hammer Home Depot

For 17 years, Sandy Cooper was a loyal customer of Home Depot Inc. But when her refrigerator recently went kaput and Home Depot told her it could take four days to deliver a new one, the mother of four went straight to a Lowe's Cos. store in the Brookhaven section of Atlanta—which promised to deliver a new fridge the next day. “I have to sing their praises, because they were very nice,” says Cooper, 45. “At Home Depot, you can’t find anybody to help—and if you do, they just point.”

Based in Wilkesboro, N.C., Lowe's—the No. 2 player in home improvements, with 785 stores—is staking its future on pleasing thousands of shoppers just like Sandy Cooper: women who will shop for big-ticket appliances and high-margin home furnishings at its urban stores. Indeed, a few days after getting her refrigerator, Cooper returned to buy light fixtures. She is the kind of customer Lowe's needs if its ambitious \$2.9 billion plan to add 123 outlets this year, most of them in big cities, has any

chance of success against Home Depot, still top dog, with 1,392 stores.

Lowe's is pushing hard for growth to make up for lost time. The top home-improvement chain until the late 1980s, it was knocked off its perch as Home Depot embraced “big-box” retailing, while Lowe's clung to its small-town stores. Robert Tillman, 58, who has worked at Lowe's for 39 years, became CEO in 1996. A year later, fearful that Lowe's would

forever lose out to Home Depot, Tillman began to open a handful of larger stores in metro areas. Now, Lowe's is accelerating that rollout just as Home Depot, which has saturated the largest markets, slows its expansion in order to squeeze more sales out of existing stores.

The duel between these home-improve-

TILLMAN: Female buyers, he says, are turned off by “lumber shops”

ment giants is one of the best showings in retailing today. In recent years, Lowe's earnings gains have outpaced its rival's (chart). In the first quarter of same-store sales at Home Depot fell 5%. But Lowe's, which opened 46 stores in the quarter, did even better: Its same-store sales climbed 7.5%. Lowe's profits jumped 54%, to \$346 million, in the quarter. Home Depot failed to keep pace: Its profits rose only 35%, to \$856 million. While Lowe's stock recently closed at \$46.13, disappointed investors bid Home Depot shares down to a 52-week low of \$42.70 after its earnings announcement. In fact, over the past year, Lowe's stock price has climbed 31.1%, while Home Depot shares have fallen 19.6%.

The difference between a Lowe's store and a Home Depot has been increasingly clear-cut up to now. Presently, the counts at Lowe's. Its warehouse stores are laid out so that two shopping carts can pass in comfort—a feature that has helped Lowe's appeal to women shoppers like Cooper. It made a conscious decision to target women because, as Executive Vice President for Merchandising Dale C. Tillman says, “80% of [home] projects are initiated by females.” That effort is paying off. In the late 1980s, only 13% of Lowe's shoppers were women, but many such customers were turned away by buying things “in lumber shops,” says Tillman. Today, half of Lowe's customer base is female, and the chain is attracting more and more nonprofessional home-improvement shoppers.

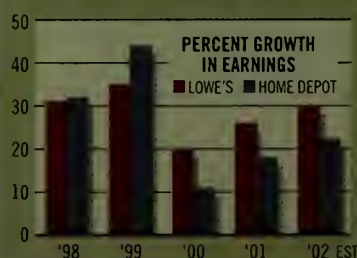
Lowe's is also focusing more on lower-margin goods—everything from paint to Ashley paints to high-end bathroom fixtures. Two years ago, for instance, Lowe's sold only \$99 gas grills. Now, it looks just like Kmart and Wal-Mart, says Pond. Now, the front of a Lowe's floor display for grills features stainless steel Jenn-Air models. It

coincidence, then, that Lowe's gross margins rose 29.7% in the last quarter, up from 28.3% a year before.

Home Depot, meanwhile, has traditionally relied on low prices, lots of selection, sales of building materials to professional contractors. But Lowe's moves into bigger metro markets. Home Depot is ap-



LOWE'S FASTER GROWTH



2001 SALES IN BILLIONS
LOWE'S: \$22.1 HOME DEPOT: \$53.6

Data: Company reports, Raymond James & Associates Inc.

Québec

and international markets: a success story

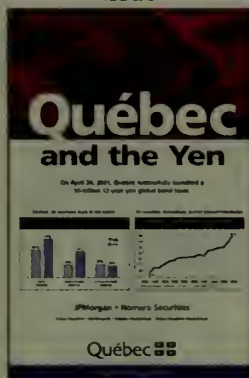
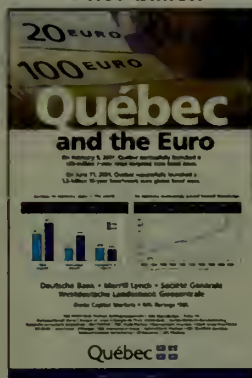
In 2001, Québec has completed 6 public bond issues in international markets.

2 issues totaling
US \$2 billion

2 issues totaling
€ 1.65 billion

A ¥50 billion
issue

A A\$400 million
issue



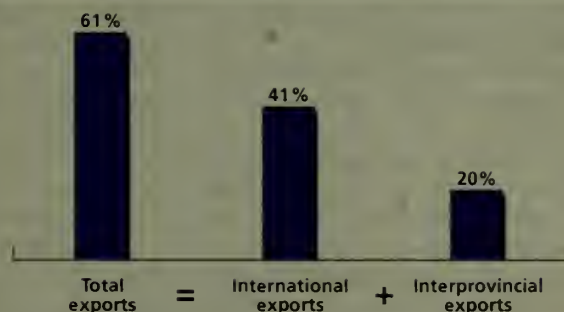
Québec is a modern
and diversified economy...

...increasingly successful
in highly competitive markets.

Breakdown of real GDP by major sector - 2000



Exports as a percentage of Québec's GDP - 2000



Québec 

ently fighting it every step of the way—and that means going after some of its rival's biggest spenders. Home Depot has cut back its overall expansion pace, even though it still plans to open 200 stores in 2002, four fewer than last year. Some of those new stores are smaller "neighborhood" units, designed for urban markets such as Chicago and Brooklyn, N.Y., and Expo Design Centers, aimed mostly at women. Home Depot already has 48 of those centers, which provide decorating services and other high-end goods. And to counter Lowe's huge share of major appliance sales—its 12.1% of the market is larger than any retailer except Sears, Roebuck & Co.—Home Depot says it will build larger appliance sections in 200 existing stores and include them in new stores as well.

Although the time may be approaching when there is a Lowe's or Home Depot on every corner, Tillman isn't worried about that yet: "We see nothing on the horizon that will keep us from growing at these rates." Right now, investors are giving Lowe's the benefit of the doubt. "Among large-cap companies, this is one of the few out there with 18% revenue growth," says R. Crit Thomas, portfolio manager of the Armada growth funds, which hold 325,000 Lowe's shares.

To keep growing at this pace, though, Lowe's has to battle Home Depot on its home turf, expanding into big markets such as Boston and New York. That looks like a risky strategy. True, Lowe's figures that its stores in the Northeast can gross \$50 million per year, compared with a chainwide average of \$32 million. And there seems to be plenty of room to grow: Lowe's now has only 50% of its stores in metro markets. But Home Depot has chewed up many a competitor. So as Lowe's and Home Depot battle it out, the result could end up being "slowing growth, maturation, and declining returns on investment for all," says Morningstar Inc. retail analyst Mike Porter.

To finance its expansion, Lowe's has added \$2 billion in long-term debt during the past two years. Bond analysts remain confident it can handle the burden. "We don't have any concerns about [Lowe's] ability to refinance any upcoming maturities," says Standard & Poor's bond analyst Patrick Jeffrey. But if the economy weakens or housing sales slump, shoppers could end up snubbing Lowe's high-end goods—making its new stores a liability. So far, Tillman is confident that Americans will keep spending money at home. And he's willing to bet the house on it.

*By Aixa M. Pascual
in Wilkesboro, N.C.*

Media



EXECUTIVES

GOOD MORNING, AOL

Can radio veteran Jimmy de Castro spin gold on the Web

At 9:30 on a Sunday morning, most of Winnetka, Ill., is still sipping its first cup of coffee. But Jimmy de Castro, outfitted head to toe in black spandex, is peddling furiously on a stationary bike in front of 29 students aping his every move. Father Jim's Bible Thumpin' Sunday spin class is in full swing. To the driving beat of Madonna and Bruce Springsteen, de Castro exhorts his sweaty faithful. "We're going to party!" he shouts. After class, the six-foot-tall Irish-American redhead mixes mimosas and pours cold brewskies. The spinners leave, achy but jazzed, each clutching a CD of exercise music that de Castro mixed himself.

If it were only as easy as spinning, James E. de Castro, 49, the new president of AOL Interactive Services, could have Wall Street eating out of his hand, too. Last the CEO of AMFM Radio Group, the hyperkinetic former radio mogul joined media giant AOL Time Warner Inc. on Apr. 15 to turn around the struggling online unit. The company's stock has fallen more than 35% since January, driven largely by slowing ad

sales and subscriber signups at the division. A week before de Castro's arrival, AOL CEO Barry M. Schuler stepped aside to head a new unit at the company and AOL Time Warner Chief Operating Officer Robert W. Pittman personally took over the task of whipping the unit back into shape.

A deejay back in his twenties

JAMES "JIMMY" DE CASTRO

BORN 1952

EDUCATION BA, University of Colorado at Boulder.

CURRENT POSITION President, AOL Interactive Services.

CAREER Started as a radio ad sales rep in San Francisco in 1974; co-founded Evergreen Media in 1988, which merged with Chancellor Media in 1997. The company morphed into AMFM Inc. in 1999 and was sold to Clear Channel Communications in 2000. Retired from radio the same year.



De Castro, who teaches a "spin" aerobics class every Sunday in Winnetka, Ill., is known for big spending, flashy promotions, and team building. Now he has to get sagging AOL in shape

an brought in the veteran radio to energize his cleanup crew. Now pressure is on for New Media neos de Castro to restore the division whose success the biggest, closely watched media merger de- s. Investors are looking to see whether his over-the-top style will light the spark or flicker out in a corporate bureaucracy grimly focused on the bottom line. In the first quarter, AOL's advertising and commerce revenue declined by 31%, to \$501 million, compared with the same period last year and new subscribers increased by 1.4 million, vs. more than 2 million in the first quarter of 2001. AOL is hoping to import a pit-bull ad sales strategy to turn that around. "Radio is one of the most cutthroat ad-sales businesses," says Gordon Hodge, media analyst at Thomas Weisel Partners LLC. "A successful [radio] executive will tear up the online space." Web savvy were what AOL needed,

IE The Deacon, acquired as a key star. Refers to "deking," a move where the player fakes out his opponent by pretending to go in one direction while actually slipping in another.

NTS When New York's WKTU in 1996, de Castro and a friend jumped into the Hudson River to swim on a bet with the staff.

Teaches an oversubscribed aerobics class every Sunday morning in the Chicago suburbs.

Married, one son, two daughters.

de Castro would have a lot to prove. But if the care and feeding of disillusioned ad clients and employees is the cure, he appears to have what it takes. A born showman, de Castro believes in spending money to make money, putting on outrageous product promotions, and motivating his employees with psychic and financial rewards. "He understands that when you have a stable full of thoroughbreds, you must make sure their blankets are warm," says Todd W. Musburger, a Chicago agent who has represented a few of de Castro's radio stars. "Many managers walk with a riding

crop [to] get their horses to run. But a happy horse runs faster." That philosophy could be a timely tonic to deflated AOL workers facing layoffs and executive departures.

De Castro, who declined to be interviewed, showed early on just how motivated he could be. He was a hockey star at the University of Colorado when he earned the nickname the Deacon, for "deking," or faking out opponents by pretending to go in one direction only to zip in another. In 1974, the penniless graduate landed a sales job at San Francisco's KSFO and traded albums for a refurbished Toyota. Within two years he was driving a red BMW with vanity plates reading "Movin Up."

He made his mark in the early 1980s turning around Chicago's legendary WLUP-FM, "the Loop." In 1988, entrepreneur Scott K. Ginsburg merged his radio company with the Loop's corporate parent to form Evergreen Media Corp. After the feds relaxed radio ownership rules in 1996, the company continued to merge with others, and de Castro eventually retired a multimillionaire in 2000 when Clear Channel Communications Inc. bought his company, AMFM. Along the way, de Castro "helped revolutionize radio's share of the ad pie," says Clear Channel board member Tom Hicks, by giving advertisers a package of stations targeting wide demographics.

All the while, de Castro developed

the dramatic flourish as his trademark style. In 1996, Evergreen bought a failing New York station. De Castro momentarily stopped the scheduled demolition of Studio 54 to stage WKTU's remake as a dance station. More than 25,000 people lined up to get into The Last Dance, featuring Gloria Gaynor, Cher, and Ru Paul. "Jimmy thinks life is better played out on the IMAX screen than the small screen," says Garry M. Meier, a former de Castro on-air personality who now is co-host of *The Roe & Garry Show* on Chicago's WLS-AM.

But the management skill beneath the flash is what may help de Castro most at his new AOL gig. Throughout the radio consolidation binge, he forged a team out of stations more used to competing than cooperating. De Castro would sit warring station managers in merging companies in a room, hand out football jerseys, put black makeup under their eyes, and command them to put their "hands in the middle" to come up with a win-win strategy. Getting AOL and media giant Time Warner to create new services promised by convergence may require similar tactics.



PITTMAN: The onetime deejay brought de Castro into the fold

So, will all this fun and flash fly at AOL? After all, former upstart AOL is now part of a big, more buttoned-down corporation. De Castro may have to learn to toe the line on costs when every penny of profit matters. All eyes are on his relationship with his immediate boss, AOL COO J. Michael Kelly, the flinty-eyed accountant who had served as AOL Time Warner's CFO. Could de Castro charm his way around Kelly straight to big boss Pittman? "I wouldn't want to be the one between him

and Pittman," says one former associate. "De Castro takes no prisoners."

In the long run, though, AOL will need more than just a boffo ad salesman. It also needs someone who understands the potential of broadband and all the possible new services, such as streaming music and video, that could help the company regain its once-stratospheric subscriber growth rates. For de Castro, navigating online media is a new game. But if he succeeds, de Castro will have performed the ultimate "deke," forging a career path in radio only to swerve at the last minute to the Internet—and maybe even score.

By Catherine Yang in Washington, with Ann Therese Palmer in Chicago

**THE D-BACKS
AFTER THEIR WORLD
SERIES VICTORY**



BASEBALL

DIAMONDBACKS IN THE ROUGH—AGAIN

Winning the Series didn't put the front office on Easy Street

The news is as familiar to Arizona fans as a Randy Johnson fastball: The Diamondbacks are restructuring again, the fifth time in five years that Major League Baseball's most successful expansion team has been forced to hustle cash to stay on the field. Investors have been squeezed, bank lines tapped, and player salaries deferred—all to help owner Jerry Colangelo meet his payroll.

The Diamondbacks may have won the World Series last fall, but financial nirvana didn't come with the championship rings. In February, scarcely four months after Luis Gonzales' bloop single vanquished the Yankees in a stirring seventh-game victory, Colangelo moved to secure \$160 million in new equity to keep the team's \$32 million operating loss from growing larger this season.

With Johnson, Curt Schilling, and other swanky talent, the D-Backs' payroll will be more than \$95 million, not counting over \$40 million that's been deferred and starts coming due this year. That trails the Yankees' \$124 million but is well above the \$68 million average.

Attendance, though up 17% from 2001, will fall short of the 3.6 million in 1998, the debut season. And the club is saddled with more than

\$150 million in stadium debt. That the D-Backs haven't been shipped to Washington or some other hungry market is testimony to the first rule of baseball—know where the money is.

No one knows better than 61-year-old Colangelo, a onetime marketing whiz for the Chicago Bulls who also runs the Phoenix Suns. To start up the team in '98, he assembled 23 investors who laid down \$6.8 million apiece. They have since been pressed to pony up \$53 million more to cover losses. Now, four of them are committing \$16 million a year for 10 years. That gives them 49.5% of the team. Colangelo retains control of 1%. "Baseball is great for me, for my business, for all of Arizona," says Mel Shultz, a Phoenix real-estate developer and one of the gang of four.

Profits are a ways off, if even Shultz. Last year's postseason added \$20 million in ticket sales, concessions and an extra \$10 million in sponsorship revenue this year. But this season ticket sales jumped to 21,000 last year, the team raised overall prices by just 6% for an alienating Arizona's large blue-collar retired community. "Other teams have won World Series increases in prices by 10% to 15%," says Diamondbacks ticket manager Diane A. "The economy was working against

The biggest thing working against the team, though, is a payroll that's up more than 12% from last season and will likely saddle the D-Backs with \$30 million in additional operating costs in the 2002 season, says CFO Tom. Unlike the Florida Marlins, who loaded veteran players after winning the 1997 Series, Colangelo promised investors he wouldn't dismantle the team.

That puts a lot of pressure on a young farm team to continue to produce stars such as rookie second baseman Rocco Spivey. Says Minnesota attorney and longtime baseball exec Clark G. who wants to buy the Minnesota Twins, a club his father once owned: "Arizona has mortgaged its future and won't have money to keep the stars they need."

However, sports economist Andrew Zim points out that the D-Backs need to continue winning to build a franchise. "Colangelo estimated the short-term potential of this market to support the team," says. The latest cash infusion should help the D-Backs remain a formidable team. And if not enough, Colangelo knows where to turn.

By Ronald G.

HARDLY FLUSH IN PHOENIX



COLANGELO
Hustling

STARTUP Cost overruns on the stadium saddled the team with \$150 million in debt.

PRICEY PLAYERS Payroll of \$102.8 million* is fourth-highest in baseball.

ATTENDANCE Will be below 1998 levels, despite post-World Series boost.

TICKET PRICES At an average \$19.45, cheap for champions.

TV CONTRACTS Local deals don't take into account Series win. No full share of national TV revenues until 2003.

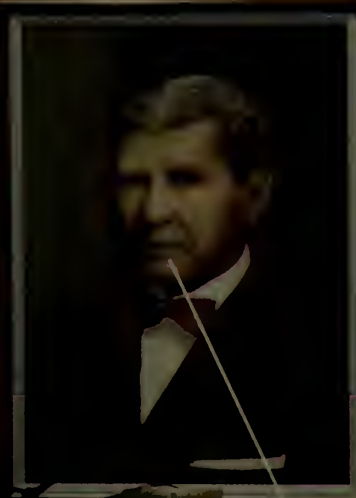
BOTTOM LINE Even with \$16 million annual cash infusion from investor group, team will likely lose over \$30 million this year.

*Includes payroll deferrals from prior years

Data: Arizona Diamondbacks, ESPN.com

I hear our company now has real-time wireless access to all our critical network data, like customer files.

Imagine how successful we could have been with that kind of network access.



What's a network?

Wireless Business Solutions. Now you'll never have to say "Imagine what I could have ..." because you'll be busy doing it. And it's not just having the Internet on your phone; real-time access to customer data, pricing, inventory. Whatever drives your business. Anywhere. On a variety of devices. And it's all possible because only Nextel has a real wireless network designed specifically to carry both voice and data. Call toll free NEXTELC, or visit nextel.com/WBS to see how we can help you outmaneuver your competition.

WIRELESS
BUSINESS SOLUTIONS

NEXTEL





GEORGIA GENERATOR: Southern Co.'s coal-fired power plant in Cartersville

ENERGY

SOUTHERN: THE NEW POWER IN POWER

With Enron gone, it has serious clout in Washington

In recent years, Southern Co.'s strategy in Washington hasn't been terribly different from that of other successful corporations: lavish millions on politicians and hire a battery of A-list lobbyists to make sure its voice was heard in the corridors of power. Trouble was, as hard as it tried, the Atlanta-based utility giant kept running into fierce resistance from a colossus called Enron Corp., whose views on energy deregulation and other issues were diametrically opposed to Southern's agenda.

Now, with Enron having collapsed in scandal, Southern is emerging as the new power in power. And the company that provides electricity to 4 million customers in the Southeast intends to use that clout to win concessions as Congress completes action on an energy package and clean-air legislation. "Southern is the 800-pound gorilla" of energy companies, an industry lobbyist says. "They're more powerful than Enron ever was."

Indeed, Southern is throwing more money around Washington than Enron did in its heyday. The utility's seven political action committees have spent more than \$1 million since 1999, according to the Center for Responsive Politics. That's more than the PACs of ChevronTexaco, BP, and Enron.

Southern's contributions open doors, but its real juice comes from a pack of high-powered lobbyists. Besides an in-house staff of four lobbyists, Southern has heavyweights like former Republican National Committee Chairman Haley Barbour and C. Boyden Gray, George H.W. Bush's White House counsel, on its payroll. RNC Chairman Marc Racicot, a close friend of the President, lobbied for the company in the past.

Southern's lobbying activities don't stop at the federal level. In its four states, Southern, its affiliates, and its employees donated \$116,430 to candidates in the latest election, according to

WHAT SOUTHERN WANTS FROM THE FEDS

- An end to Enron-instigated efforts to deregulate electricity at the state level.
- Comprehensive energy legislation that includes research funding and tax credits for clean-coal technology.
- The end of an air-pollution lawsuit filed against it by the EPA during the Clinton Administration.
- Failure of a proposal by Senator Jim Jeffords to require power plants to reduce "multi-pollutant" emissions, including carbon dioxide.

the National Institute on Monopoly and State Politics. Southern subsidiaries are among the top energy contributors to politicians in Mississippi and Georgia, while its Power ranked first in Florida.

What is Southern getting for its money? At the state level, it has successfully offloaded deregulation. And on the federal level, House policies that limit energy to air pollution, the utility found a sympathetic ear. Case in point: Twelve days after Mar. 1, 2001, from Barbour, Vice-President Cheney, President Bush reverse

position and said he did not support tougher standards for carbon dioxide emissions.

Administration officials insist they were not influenced by Barbour. Environmentalists see a pattern. "They have a paper trail indicting Southern," says John Walke, an attorney with the Natural Resources Defense Council. "Southern distorts public policy, and it manipulates the political process." Responding to Dwight H. Evans, Southern's executive vice-president for regulatory and legislative affairs: "The [greens] have an agenda and will distort the fact [to accomplish] whatever they want to do."

The influence of Southern, which reported \$2.2 billion in first-quarter revenues, will be tested again in coming weeks as the energy debate heats up. Legislation nearing completion on Capitol Hill includes several measures pushed by Southern, such as research and development funding for clean technologies. In addition, the House version provides \$3.3 billion in tax credits over 10 years for clean-coal investment and production—another item on Southern's wish list.

A tougher test could come in May, when the Senate Committee on Environment & Public Works is expected to take up a proposal to require power plants to reduce "multi-pollutant" emissions. Southern, which opposes government regulation of CO₂ emissions, may not be able to prevent congressional approval of the bill by Chairman

(I-Vt.). But the utility is girding for a protracted fight on Capitol Hill. Southern and the Administration are united against Jeffords, they are on opposite sides of an air-pollution battle brought by the Clinton Environmental Protection Agency. The issue is a "new source review," which requires companies to get a permit from EPA and meet strict emissions standards when modifying an existing plant. Southern hopes an energy-friendly court will reinterpret the rule. Whether Southern ultimately wins its "new source" battle or not, it already has triumphed in its war over electricity deregulation. The issue is the biggest bone of contention with the champion Enron. After all, why would Southern want competition in the West, where it effectively has a monopoly? In the wake of new evidence that Enron and Reliant traders manipulated California markets, Southern wants to bury the Enron-led deregulation forever. Southern favors electricity regulation; it fights every other kind of red tape. If it's regulation, they want less of it, says Eric Schaeffer, former head



sides its four in-house lobbyists, Southern has hired one of the most powerful political heavyweights

the EPA's Office of Regulatory Enforcement, who resigned to protest the Administration's pro-industry leanings. To fight air pollution control, they want less of it. And if it's enforcement, they certainly want less of it. Environmentalists have targeted the company with a massive "Clean Up Southern" campaign. But with Enron out of the way, Southern will have more money and resources to devote to a counter-attack. Look for those silver-tongued lobbyists to lead the charge.

By Laura Cohn in Washington

Marketing

MOVIES

THE TROUBLE WITH TIE-INS

Marketers are shying away from pricey Hollywood deals

PepsiCo Inc. used to love to spend its summers at the movies. When George Lucas' *Star Wars: Episode I—The Phantom Menace* came out in 1999, the company ponied up hundreds of millions of dollars to tie in its soda brands. Not anymore. This year, the marketer's biggest Hollywood plunge consists of a single TV spot for Pepsi Twist featuring *Austin Powers* star Mike Myers. "The idea was to be smarter with our dollars and keep the program simple," says Dawn Hudson, PepsiCo's senior vice-president for marketing.

Welcome to Hollywood's version of the ad drought. The same force that's producing thinner magazines and a tougher sell for commercial airtime on TV has hit the movies. In the '90s, studios came to depend on big campaigns and big bucks from marketers eager to tap into a hot movie. This year, though, advertisers are scaling back their movie-marketing ambitions. Chalk it up to tighter ad budgets and the tepid sales boost from "can't-miss" properties such as *Phantom Menace*. We've had to adjust to a new reality," says Brad Globe, head of consumer products for Dreamworks SKG.

To get sponsors this year, studios are having to give old partners more for their money and move down the marketing food chain to find new ones. With summer-movie marketing budgets often breaking \$50 million, studios urgently need someone else to help carry the load—even if that means second-tier fast-food chains and the operator of those supermarket gizmos that exchange your spare coins for bills. "A lot of companies are jumping in that have not really done it before," says Alyse M. Kobin, president of tie-in specialist Kobin Enterprises Ltd.

Yum! Brands Inc., whose Taco Bell unit was among those burned by *Phantom Menace*, bailed out of Hollywood

altogether this year. Instead, it's giving its menu offerings starring roles in ads for its KFC, Pizza Hut, and Taco Bell chains. "It's less risky than tying in with a movie that may or may not be a hit—or might not help your product, even if it is," says Yum! Vice-President Amy Sherwood.

Other marketers are demanding a lot more for their money. Dreamworks assembled a blue-chip list of sponsors for *Spirit: Stallion of the Cimarron* that includes national TV campaigns from Burger King and Baskin-Robbins. But Hollywood insiders say Dreamworks had to loosen licensing restrictions on its movie characters, offer more im-

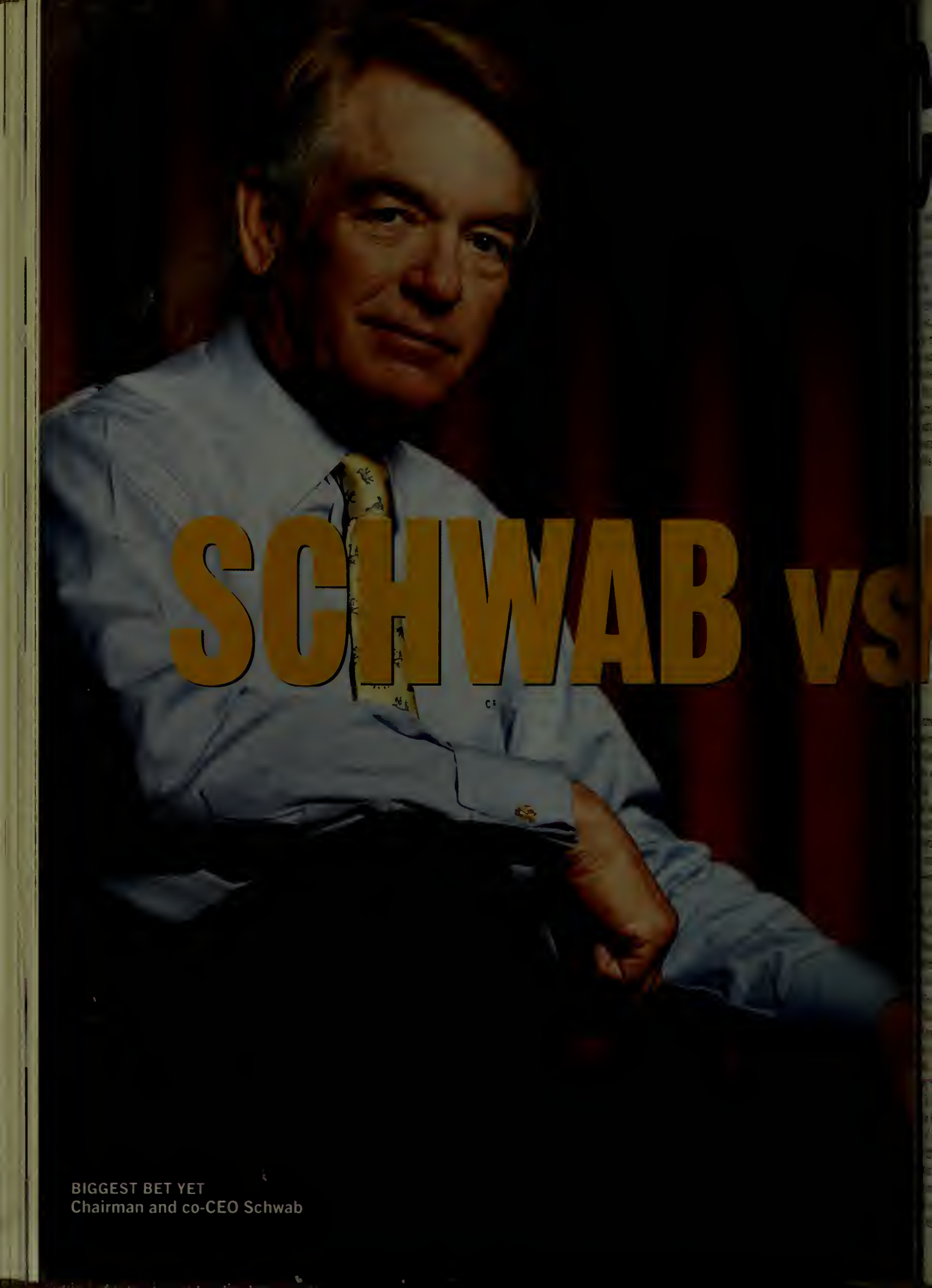
SONY LOOKED FAR AND WIDE TO SIGN UP SPIDER-FRIENDS



ages for ads, and in some cases throw in tie-ins to release of the DVD as part of the deal.

Some movies have had to search further afield for new sponsors. Sony Corp. snared a few tie-in regulars, such as Kellogg, Hershey, and Reebok, and a deep-pocketed newcomer, Cingular Wireless, for its megahit, *Spider-Man*. But it also signed up CKE Restaurants Inc.'s regional burger chains, Hardee's and Carl's Jr. It even cut a deal with Coinstar Inc. in which the Bellevue (Wash.) company is placing movie ads on its 10,000 supermarket-based coin-exchanging machines. But this deal will only get Sony so far. Coinstar's spending on *Spider-Man* is unlikely to exceed a couple of million dollars. *Spider-Man* may be climbing the box-office charts, but even he isn't strong enough to pull in the marketing giants.

By Ronald Grover in Los Angeles, with Gerry Khernouch in New York



SCHWAB vs

BIGGEST BET YET
Chairman and co-CEO Schwab

Charles R. "Chuck" Schwab is never happier than when he's waging war against Wall Street. In fact, it has been his business model ever since 1973, when he founded the discount brokerage that bears his name. His aim back then: to exploit the end of fixed-rate commissions in 1975—a traumatic event that slashed brokers' revenues and drove dozens of old-line firms out of business. His successful OneSource no-fee mutual-fund supermarket, launched in 1992,

is about a profound change in that business. And Schwab's stellar performance after its 1996 leap into online trading eventually forced the mighty Merrill Lynch & Co., one of the last holdouts, to follow suit in 1999.

Now the 64-year-old chairman and co-chief executive of Charles Schwab Corp. is again trying to rewrite the rules on Wall Street. On May 16, he announced moves aimed at capturing the most profitable customers of the likes of Merrill Lynch, a Stanley Dean Witter, Salomon Smith Barney, and UBS PaineWebber—affluent clients with \$500,000 to \$5 million to invest. They constitute a huge market: By some estimates, they control nearly \$11 trillion of investments in stocks, bonds, mutual funds, and cash, or about half the total of all investments owned by Americans.

Schwab's attack plays directly off the crisis of confidence

on one with a personal adviser who provides investment ideas on matters ranging from asset allocation to stock selection. Next year, it hopes to add FDIC-insured banking products. Both services are commonplace on Wall Street. What's unique, though, is how Schwab comes up with stock picks. Using a new in-house computer model, it grades more than 3,000 stocks on an A to F scale based on 24 measures, such as a company's free cash flow and sales growth (page 70). "It's a systematic approach with nothing but objectivity, not influenced by corporate relationships, investment banking, or any of the above,"

says Pottruck.

Last year, he claims, investors who

bought the top 30 A selections would have beaten the Standard & Poor's 500-stock index by 4.6 percentage points.

Schwab could do with a big lift. Ever since the tech stock bust in the spring of 2000, its mainstay online trading has fallen sharply, slashing its revenues and operating margins. The resulting squeeze was so hard that Schwab had to fire nearly one in four of its 26,000 workers last year—the first layoffs since the 1987 stock market crash. In the scramble to shore up profits, it is slapping on extra charges, such as a \$3 transaction fee on online trades. And it has a minor rebellion on its

Cover Story

WALL STREET

currently rocking the Street. Criticisms blame bankers' bad advice and their troubled mergers and acquisitions. Betrayed mutual investors fault their brokers for losing trillions of dollars of wealth since the dot-com bust in the spring of 2000. And they and their research analysts—for over-

stock recommendations. Now, Schwab is trying to turn Wall Street's woes to his own advantage.

Along with President and co-CEO David S. Pottruck, 53, launching an aggressive marketing campaign that fingers the shortcomings and holds his firm up as the model of the clean financial adviser. Hard-hitting print and TV ads emphasize that Schwab brokers, unlike their peers on the Street, aren't paid based on how much they encourage customers to trade, and that the company isn't beholden to big clients because it doesn't have an investment-banking arm. "At Schwab, we're not focused on investment banking. To us, it's a potential conflict of interest," says one adviser. "Our broker's idea of an investment plan is a never-ending list of hot stock tips?" asks another. "We're promoting a different from all those other firms, and we will not be out promoting how different we are," says Schwab.

The centerpiece of Schwab's offering is a new stock-rating system coupled with a private-client service and, soon, investment banking products. For a flat fee, customers can talk one-

With the big firms
rocked by scandal,
Schwab is going after
their disgruntled—
and rich—clients

hands among the independent financial advisers whose clients pony up about one-third of the \$858 billion of Schwab's total client assets. Some claim Schwab is hanging onto clients it should be referring to them. A few are so angry that they have stopped placing new money with the firm.

The new strategy will cause plenty of strains at Schwab. Signing up thousands of upmarket clients and making money for

them—and from them—is sure to be tough. By launching a private-client service, Schwab is straying further than ever from its discount-brokerage roots. It is hoping to extend its well-established brand without sacrificing the core brokerage business, which still accounts for 38% of its operating earnings. Schwab's top execs are well aware of the magnitude of the challenges they face. "The changes we're making are profound," says Pottruck, a former champion wrestler and football player at the University of Pennsylvania who is charged with making the strategy work. "This is retesting what the company stands for." The 18-year company veteran, long seen as Schwab's heir apparent, has been co-CEO since 1998. He serves as the firm's hands-on, day-to-day manager while Schwab serves as the big-picture strategist and public face of the company. Says Schwab: "I'm the inspirational leader, and Dave makes it happen."

If the duo can succeed, they'll do far more than revive their

WHY SCHWAB NEEDS NEW BUSINESS —FAST

SCHWAB STILL DOMINATES ONLINE TRADING...

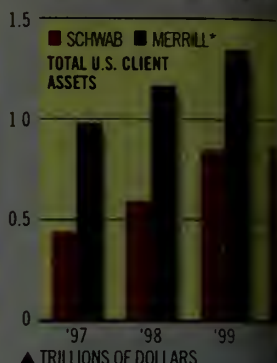
Market share of 2001 online trading volume

SCHWAB	20.5%
E*TRADE	13.9
AMERITRADE	12.1
TD WATERHOUSE	11.6
DATEK	11.2
FIDELITY	8.4

Market share of \$920 billion online account assets

SCHWAB	37.2%
FIDELITY	33.7
TD WATERHOUSE	10.1
E*TRADE	4.9
AMERITRADE	3.4
QUICK & REILLY	2.7

...AND IS CLOSING THE GAP WITH MERRILL



own business. They'll demonstrate that Wall Street can turn an honest penny without fleecing investors—and that it's possible to earn big bucks from a standalone brokerage and research operation.

As the firm strives to do that, it's finding some unexpected allies among the regulators. On May 21, Merrill reached a \$100 million settlement with New York Attorney General Eliot Spitzer, who charged that its analysts issued misleading research to win banking business from Internet companies. Merrill also agreed to change its research standards and even the way that its analysts are paid. Other firms will likely follow suit. Spitzer is also investigating Salomon Smith Barney, Morgan Stanley, and at least three other

firms. Meantime, the Securities & Exchange Commission hinted that Spitzer may not have the final word. "While this settlement is an important milestone for investor protection, it is not the finish line, and will not preclude our own efforts on behalf of the investing public," says SEC Director of Enforcement Stephen M. Cutler. The SEC has also launched a probe into the practices at 10 firms. And plaintiffs' lawyers are filing a flurry of class actions against Wall Street firms.

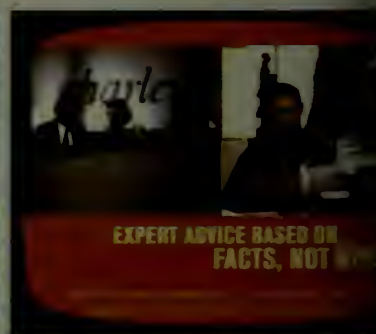
All the same, Schwab may find that it isn't alone in ginning about having no conflicts for very long. Merrill immediately tried to turn the May 21 settlement to its advantage, saying that it was setting a "new industry standard" for research—a boast that will be backed by an ad campaign. "Merrill Lynch can consider this a victory because they have a significant competitive advantage over their rivals," says John Coffee, professor of securities law at Columbia University. "They not only escaped crucifixion but they emerged with holier analysts than the rest of their competitors." The same day, Goldman, Sachs & Co. appointed a new investment research ombudsman and expanded its audit committee's responsibilities to include monitoring the integrity of its research. And on May 22, Salomon said it would adopt the same changes as Merrill.

While most of Wall Street quietly dismissed Schwab's move as a marketing ploy, Merrill pointed out a potential Achilles' heel. On May 16, it said in a rare statement that Schwab's attempt to recast itself as a source of advice reflected the woes of its discount-brokerage business. "Schwab will be hard-pressed to deliver on that promise for the long-term benefit of their clients," it said.

Merrill may well be right. Schwab's culture is being severely tested. Employees hired mainly as order-takers

Cover Story

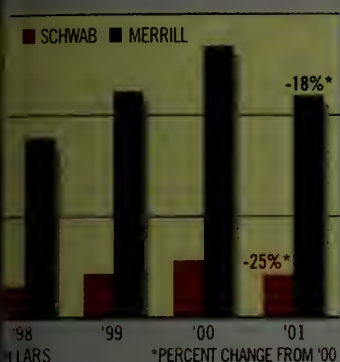
SCHWAB vs. WALL STREET



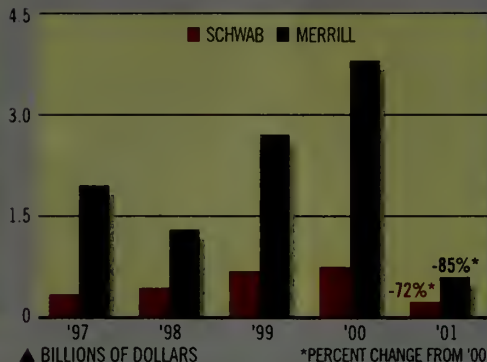
UPSCALE, BUT SQUEAKY-GLASS

Schwab offers private clients personal advisers who meet in plush offices by appointment only. They give advice on stocks picked by a computer model—from a firm with no investment-banking conflicts.

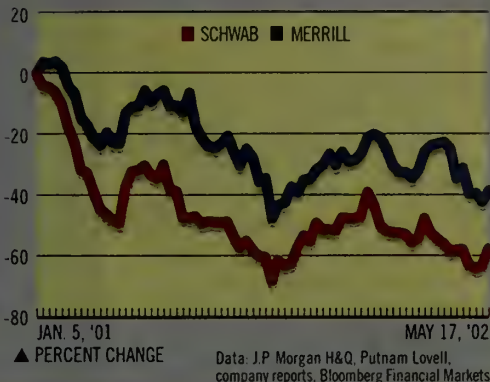
UT ITS REVENUES ARE SLIPPING...



...PUNCTURING NET INCOME...



...AND BRINGING ITS STOCK PRICE DOWN TO EARTH



that they're underqualified as Schwab strives to up its branch staff with more experienced—and more experienced—financial advisers. Meanwhile, there has been turmoil at the top. Steven L. Scheid, who headed the retail business, was abruptly left in February because he wanted more “autonomy” according to the company. Scheid declined to comment. Chuck Schwab is filling in for him while the company looks inside for replacement.

The company's relationship with 5,000 independent advisers has been fraying ever since 2000, when Schwab bought U.S. Trust Corp., a 149-year-old advisory firm catering to multi-millionaires. As Schwab pushes deeper into the advice business, many are feeling more threatened and blame the firm for coming in to their business. “We feel Schwab's competing with us,” says Chris Delessert, an adviser in Newton, Mass., who keeps about \$150 million in assets at Schwab. “They are angering a lot of people.” Schwab has tried to lure the elite group of 330 outside advisers who form Schwab's Advisor Network. It has set up an incentive for advisers to refer clients to them as they are supposed to—but the advisers are to turn over a small cut of the fees they earn from clients.

Whether risky the strategy might be, Schwab and Pottruck have little alternative but to bet big. The firm is still reeling from the financial aftershocks of Nasdaq's crash in 2000. Pummeled by a 34% drop in daily average trades, revenue fell 25% last year, to \$4.35 billion, and net income plunged 72%, to \$199 million. With little prospect of quick improvement, Pottruck moved to slash costs:

From the layoffs, he also dumped millions of dollars' worth of computer equipment to save the costs of running and maintaining it. “Obviously, we weren't going to succeed with online trades,” says Pottruck. Trading levels are “not going to go back to where they were in 2000, ever.”

That realization also put the advice strategy on the front burner. Schwab had been quietly putting it in place well before the tech bust. By then, Schwab had already announced plans to acquire U.S. Trust. That move was designed to help Schwab retain customers who were leaving because it didn't provide trust and estate services. But Schwab still needed a service to offer to the legions of people with \$500,000 or more in assets who want to keep control

of their own accounts but need an adviser to give them ideas.

Launched on May 16, Schwab Private Client is Schwab's play for this market. For a fee of 0.6% of assets—or a minimum of \$1,500—per year, customers meet face-to-face with an adviser to work out an investment plan and return to the same consultant for further advice. The adviser might call the client to discuss market or industry developments and their impact on the portfolio. What clients don't get: legal, tax, and

estate-planning advice. Nor do Schwab's private-client advisers actually manage the client's money or decide what to buy and sell. That's still the client's job.

The service, which is by appointment only, will be available in most Schwab branches. But Schwab has also opened nine separate, plush offices in upmarket neighborhoods for customers wanting to avoid the hoi polloi at regular branches. The discreet fourth-floor office in Santa Clara, Calif., in the heart of Silicon Valley, is furnished with dark wood furniture, flowers, and a conference room where customers can bring their tax advisers, estate planners, and attorneys for powwows with the Schwab adviser. “It feels like a private-client atmosphere,” says John Molskness, who heads the office. “It's not designed for the walk-in client.”

Pottruck credits U.S. Trust staffers for helping Schwab figure out how to structure its new service. They warned, for instance, that unlike Schwab's do-it-yourself customers, private clients don't appreciate being told to phone a call center if their adviser isn't available. But in other areas, the relationship hasn't been too fruitful. It quickly became clear

that Schwab wouldn't be able to scale down U.S. Trust's high-maintenance hand-holding of clients to accounts as small as \$500,000. And U.S. Trust stock analysts balked at putting their own research reports on Schwab's Web site. Pottruck says that was “a little bit of a disappointment,” but Schwab realized that the analysts covered too few stocks to make the effort worthwhile. Instead, Schwab is offering Goldman Sachs' research to top-drawer clients.

Now, Schwab faces a reality check as it starts selling advice to a wider public. During a year of testing, the service attracted about 1,000 clients—mostly existing Schwab account holders—and \$1.5 billion of assets, of which just \$225 million was new money. Chuck Schwab is projecting the pri-



THEIR APPARENT POTTRUCK

Schwab's private-client initiative “is retesting what the company stands for,” says Pottruck, who calls the changes “profound”

vate-client business to reach between \$3 billion and \$4 billion in assets by yearend. Can he succeed? Some observers believe he has a decent shot at making the service work because many customers, burned by the tech meltdown, want advice. "Customers will want it because customers need it," says Morty Schaja, president of New York-based Baron Funds, which owns 22.3 million Schwab shares. "With the new service, they'll successfully fill in the gap between U.S. Trust and the discount-brokerage online trader. Now they can compete favorably with Merrill Lynch and Morgan Stanley."

Others are far less sanguine because so many other banks and brokers are chasing the same affluent clients. "They're going into a very crowded marketplace," says David Thompson, consultant at NFO World-Group Inc. Adds Ward Harris of financial-services consulting firm McHenry Consulting Group: "I don't know if Schwab



FRAYED RELATIONS

Delessert, an outside adviser to Schwab, fears the firm will keep its best clients

but plans to double that number by yearend. If it can't find within its existing ranks, it will look outside. That's already happening. Before he came to the then-new Santa Clara office a year ago, the 34-year-old Molskness worked at the special-advice operations of Prudential Financial and AmeriExpress. All four advisers in Santa Clara have years of experience in giving financial advice, though three of them lack a certification

though they are currently completing the coursework to receive it.

Even with a qualified staff, Schwab may still be behind what Pottruck calls a "credibility gap" that keeps marginal potential customers from seeing Schwab as a legitimate source of advice. "We're not yet trusted for our market wisdom, the nature and depth of our client relationships," he says.

As its adviser staff boosts its qualifications, they're also demanding higher salaries, something Schwab traditionally has been known for. A former manager who voluntarily left the company in early 2001 notes an inside joke: Schwab is a discount broker that offers a "discount paycheck." Says Erick F. May, head of research at Newbridge Partners LLC, which in May sold about 6 million Schwab shares: "Where it cuts is on order-takers, it's got to replace with advice givers who cost more. If they want to compete with Merrill Lynch, they will require a lot of capital." Daniel O. Leemon, Schwab

Cover Story

SCHWAB vs. WALL STREET

While Schwab's advisers may be able to handle basics such as asset allocation, he says, they may cope less well with more complex issues such as managing options.

In pushing itself as a financial adviser to the affluent, Schwab's biggest hurdle may be finding the right staff. It now faces an urgent need to develop a cadre of qualified advisers for its private-client service. It has only 150 in place,

SCHWAB: TACKLING THE BULL

How different is the Schwab model from the fee-based offering of its biggest competitor, Merrill Lynch?

SCHWAB

■ **RETAIL BUSINESS** Sells equity offerings underwritten by Goldman Sachs, but does not have investment-banking business. Retail clients account for 60% of revenues and 37% of operating profits.

■ **RESEARCH** Employs no in-house research analysts. Distributes proprietary research based on quantitative models that it considers more objective. Also distributes Goldman Sachs research reports to investors with \$500,000 of assets.

■ **CHARGES** Charges annual fees of 0.6% for \$2 million or less in assets. No fee on cash or money-market funds. Minimum charge \$1,500.

■ **TRADING FEES** Fifty free trades a year for clients with \$1 million or less in assets.

■ **ADVISERS** Network of 150 advisers in nine private-client offices, and dozens of Schwab branches. Plus network of 330 independent advisers.

MERRILL

■ Retail services contribute 44% of revenues and 30% of pretax earnings. But investment banking, which accounts for 65% of pretax earnings, is the bigger moneymaker.

■ Employs 800 research analysts and distributes proprietary research to financial consultants. Provides technical research based on quantitative calculations, but maintains that fundamental research by analysts beats computer models.

■ Charges annual fees of 1.5% on client's first \$1 million in equities, 1% on mutual funds, 0.5% on bonds and cash. Minimum charge \$1,500.

■ Unlimited free trades for \$1 million accounts, 300 trades for those over \$500,000.

■ Network of 14,000 in-house advisers in 700 branches across the U.S.

Data: Schwab, Merrill Lynch

It's not just e-Business. It's Real Business.

Rich Williams
Internet Systems Manager
Reader's Digest



COMPANY — The Reader's Digest Association, Inc. – www.rd.com

BEST KNOWN FOR — The most widely read magazine in the world

BUSINESS PHILOSOPHY — Inform, enrich, entertain and inspire people of all ages

DEFINING INTERNET MOMENT — When Reader's Digest added clicks to bricks

RESULTS — For eighty years, Reader's Digest has been widely known and respected for its editorial creativity and direct marketing expertise. In 1998, when Reader's Digest sought to extend its prized media brand by leveraging the Internet, the company looked to Digex for help.

Digex provides full management of the rd.com Internet property so Reader's Digest can focus on their mission: Delivering products that inform, enrich, entertain and inspire people of all ages and cultures.

To learn more about Digex, the company that Gartner Inc. listed as a leader in the industry for a second year in a row,* call **1.866.344.3997** or visit **www.digex.com/hosting**.



Managing Business on the InternetSM

©2002 Digex, Inc.

*Gartner "North American Web-Hosting Market: Magic Quadrant", T. Chamberlin, C. Paulak, March 2002

Gartner's permission to quote its Magic Quadrant research should not be deemed to be an endorsement of any company or product depicted in the quadrant. The Magic Quadrant is Gartner's opinion and is an analytical representation of a marketplace at and for a specific time period. It measures vendors against Gartner-defined criteria for a marketplace. The positioning of vendors within a Magic Quadrant is based on the complex interplay of many factors. Gartner does not advise enterprises to select only those firms in the Leaders segment. In some situations, firms in the Visionary, Challenger, or Niche Player segments may be the right match for an enterprise's requirements. Well-informed vendor selection decisions should rely on more than a Magic Quadrant. Gartner research is intended to be one of many information sources and the reader should not rely solely on the Magic Quadrant for decision-making.

Gartner expressly disclaims all warranties, express or implied of fitness of this research for a particular purpose.

chief strategy officer, counters that expected increased revenue and efficiency will offset rising payroll costs in the future.

Schwab also faces a real danger that customers will view its private-client advice as a one-size-fits-all product. Private-client advisers make heavy use of in-house computerized systems to develop investment plans for clients. Without them, serving each client would take so much time that Schwab's costs would spin out of control. "You run the

Cover Story

SCHWAB vs. WALL STREET

risk of [getting into] a slippery slope where before you know it, you've reinvented the cost structure of your most expensive competitors," says Pottruck. "The key for Schwab is our ability to use technology and automation to keep the cost structure down."

Using a consistent computerized system to analyze client needs also protects clients from the whims or offbeat personal preferences of the adviser, Schwab executives say. But it's a small step from consistent to cookie-cutter. That's a perception Schwab has been aware of and wants to avoid. "None of us is so naive to think there's a model that works for everyone all the time," says Jeremiah H. Chafkin, an executive vice-president who is overseeing the advice service. "No one wants a relationship with a computer." The new ads try to counter any such perception, insisting that advisers "take the time to study your financial needs" and "listen to you and your goals."

That may produce hollow laughter from Schwab's traditional clients. Schwab no longer pays postage on envelopes customers can use to mail in checks. Since last fall, households with less than \$50,000 in their accounts have to pay \$30 a quarter, unless they trade eight times a year. And starting on June 1, the company will raise its minimum fee for broker-



BALANCING ACT Schwab (shown in 1981) risks alienating many of its small clients as the firm woos the wealthy

assisted trades by 41% and automated-phone trades by 6%. Schwab also plans to start charging a fee for all customers when they want to close an account. "Schwab obviously wants to chase small customers out of there," says Muriel Siebert, chairwoman of Muriel Siebert & Co., a rival count broker that hasn't changed its fees. "Schwab is losing a lot of goodwill." Adds Baron Capital's Schaja: "The problem is that the customer that isn't profitable today might become a profitable customer in five years."

Pottruck clearly has to execute a delicate balancing act. The company's ambitious financial targets for this year

COMMENTARY

By Gary Weiss

SCHWAB'S SOFT SELL OF HARD STOCK DATA

Brokerage firms have a serious problem: No matter how much they might finesse it, a large and vital portion of their business is tied to the level of public enthusiasm (or, nowadays, lack thereof) for buying stocks. So it's easy to dismiss Charles Schwab Corp.'s new Equity Ratings as a marketing ploy that capitalizes on the analyst woes plaguing its competitors. Every week, Schwab will issue grades to more than 3,000 stocks, with the top 60 heralded for customers on the Schwab Web site. The stockpicking will be done by computer, without the fouling human touch. Or as Schwab puts it, "free from investment-banking and commissioned-based sales conflicts."

Translation: Wall Street research has lost whatever credibility it may have once possessed, and here comes Schwab to the rescue—of its own flagging revenue stream. Well, such cynicism is justified, but only up to a point.

Sure, there's a heavy, if not dominant, marketing component to the

Schwab Equity Ratings, which were announced on May 16 and have a starring role in Schwab's new advertising campaign. Grading stocks is not new—Value Line Inc. has done it for years—and brokerages have their own overenthusiastic, buy-hold-never-sell stock-rating systems. Schwab is cleverly playing off public dissatisfaction with Wall Street research. And by doing so, the firm is engaging in a classic soft sell—gently prodding its customers off their duffs to buy stocks. "The lists are intended to provoke thinking—just to get our clients thinking," says Jerry Chafkin, a

The new ratings are a refreshing counterpoint to the hype from analysts and a savvy marketing tool

Schwab executive vice-president in charge of the new ratings.

At a time when investors have no reason to think about anything other than picking stocks, that's a smart strategy. It's also a reasonable enough investment tool. The general idea—objective, computer-driven research—certainly makes sense. If Wall Street research can't be trusted, how else does an investor pick stocks? Advocates of efficient market theory believe a throw of the dice is as good a method as any. They're right. But other market mavens, notably author and former Fidelity fund manager Peter Lynch, argue that investors should focus on what they know, and do their own research.

The Schwab rating system is a bit of middle ground. It offers customers an old-fashioned stock-screening system, as do many other firms' Web sites. But such screens are a poor method of stockpicking if the stocks are not properly selected. So Schwab is taking the idea a step further

LEADING THE CHARGE

relentless innovation has redefined the brokerage business several times already

... equity analyst and manager Charles R. "Chuck" Schwab leads the brokerage to expand its fixed-price stock trading commissions in May, 1975.

... first branch in Sacramento. 400 branches nationwide.

... Schwab sells his firm to Bank of America for \$57 million, but quickly becomes dissatisfied and buys it back three years later.



1989 Launches Telebroker, a touch-tone trading and quote system.

1992 Introduces One-Source, a mutual-fund supermarket allowing customers to buy fund shares without paying loads or fees.

1996 Begins online trading, a business it now dominates with over 37% of \$920 billion in online account assets.

2000 Announces merger with U.S. Trust, a 149-year-old adviser to multimillionaires.

2002 Takes on Wall Street directly with launch of Schwab Private Client and Schwab Equity Rating stock-picking system.



... him much room to maneuver—requiring him both to cut costs and bag significant new revenues. Schwab is targeting operating profit margins of 12% to 14% by yearend and hoping to boost revenue per employee to \$300,000 in 2003, up from \$190,000 in 2001. In addition, it hopes to garner \$125 billion in net new assets, a considerable jump from the \$74 billion added in 2001—all the while nurturing the new private-client service.

In the past, Schwab has had its snafus. In 1999, it set up Epoch Partners Inc. along with TD Waterhouse, Ameritrade, and three venture-capital firms, to underwrite initial public offerings of technology companies to sell to clients, a market that froze after the tech bust. In June of last year, it sold its stake to Goldman Sachs, which acquired all of Epoch. Other recent initiatives have included PocketBroker, a wireless

trading service for handheld gadgets that Schwab acknowledges hasn't taken off, and CyberTrader, a service for active online traders that it is still trying to expand.

But it would be dangerous for Wall Street to assume that Schwab's private-client service will fall flat. Time and again, Chuck Schwab's rivals have poooh-pooohed his ideas as impractical or unnecessary; time and again, his ideas have wrought major changes in the way Wall Street operates. If Schwab can show that a large-scale advice business can work profitably without being inextricably wed to an investment bank, he'll blow the Street's current business model out of the water—probably to the cheers of millions of disgruntled investors.

By Louise Lee in San Francisco, with Emily Thornton in New York

... screen for its customers using 24 criteria including mainly fundamental factors such as earnings and growth, plus analyses of analyst upgrades and downgrades. Schwab says the aim of the ratings is to give investors a tool to help them decide to alter their portfolios, not to encourage them to buy or sell stocks. And, he says, the list is not static; it can change frequently from week to week. Schwab also warns against cherry-picking screens to cherry-pick winners.

... Schwab's rating system is the counterpoint to the Street's system that is routinely outperformed by Wall Street. The list criteria were developed by quantitative analysts who were removed from Chicago Investment Research, which Schwab acquired in December, 2000. Under the supervision of Chicago Investment co-founder John Forsythe, now Schwab's director of research, the computer will filter through a list of nearly 10,000 stocks with over \$75 million in market value that isn't a real estate in-



vestment trust or a limited partnership.

The top 10% will be rated A and the bottom 10% will be rated F. The biggest category of stocks—40% of the lot—will always be rated C. Forsythe won't discuss the results of backtesting the new system because of regulatory constraints. But he says a model portfolio of 100 stocks, using the same basic approach as the ratings system, beat the market by

4.6 percentage points in 2001 and 6 points in the first quarter of 2002.

The top stocks on the list are diverse. The latest A-listers include such widely held companies as Anheuser-Busch, Kellogg, and Mattel, as well as less well-known names such as Commercial Metals, Sanderson Farms, and Walter Industries.

But the system sneers at some widely held stocks, including a few that have lately generated a lot of Street interest. General Motors Corp., up 34% this year in a bad market, gets a C rating (great momentum, mediocre fundamentals and valuation). Is bedraggled IBM a buy? So say three-quarters of analysts covering the stock.

But its momentum is cruddy, says the Schwab ratings, so it gets a C. Ditto for AOL Time Warner, while Citigroup draws a B, and Merrill Lynch, Schwab's beleaguered rival, gets a C.

And Schwab? Well, the firm, of course, does not rate its own stock. But its stockpicking system will only get an A from Schwab's shareholders if clients are roused from their stupor—and start generating commissions.

Senior Writer Weiss covers the Street.

By Emily Thornton

RESEARCH SHOULD PAY ITS OWN WAY

Everything was on the table when New York Attorney General Eliot Spitzer began his crusade to clean up Merrill Lynch & Co. in April. Criminal charges. A restitution fund for investors. Even partial reinstatement of Depression-era laws walling off investment banking from research. But Spitzer let Merrill off the hook with a \$100 million slap on the wrist after it promised that its investment-banking business will no longer influence how much its analysts get paid.

The New York AG dropped an earlier demand that the stock-picking be spun off somehow into an independent entity. In doing so, he essentially bought into the Wall Street wisdom that says research can survive only as a subsidized function of a full-service firm.

Unfortunately, the pact signed by Merrill Chairman and CEO David H. Komansky merely papers over the basic conflict at the heart of



SLAP ON THE WRIST

Merrill CEO Komansky and President Stanley O'Neal can still subsidize research with banking

settlement, Merrill's analysts can go on road shows with investment-banking clients. That sends analysts a clear message that downgrading a company hurts their employer's profits.

Wall Street's argument that full-fledged research is a money-losing proposition rings hollow. True, the costs of running a research department are tremendous. The reason: The Street is paying bloated, investment-banking wages—something no independent research outfit need do. Prudential Financial Inc. estimates that the five largest firms spend \$1 billion annually to maintain equity research departments with hundreds of analysts.

If Wall Street firms forced re-

search departments to pay their own way, they would foster a healthy market for quality research. Even competing against subsidized research, independent firms make money. Prudential, which eliminated its investment-banking division, reported first-quarter net income of \$263 million from research, brokerage, and related operations. Value Line has survived for 70 years.

Moreover, investment banks might be able to cut costs by paying analysts less—and still get the same quality of research. Many independent firms' lower-paid analysts already seem to be making better stock calls than analysts at the large

brokerages, where average annual pay hit a peak of \$1 million in 2000 (table).

Indeed, the crisis of confidence on Wall Street is spawning a new breed of analyst. San Francisco-based StarMine Corp. has been rating investment-bank analysts for money managers for three years. Now, investment banks such as W.R. Hambrecht & Co. and U.S. Bancorp Piper Jaffray are hiring StarMine to keep score of their own analysts' recommendations. "Our business plan is to more than double our revenues this year," says David Lichtblau, a StarMine vice-president.

Some financial-services leaders such as Charles R. "Chuck" Schwab say the way to eliminate conflicts

of interest is to keep the analysts out of the game. Sets of analysts: one to advise investment bankers and another for retail investors. For that to work, retail investors would still have to pay for research.

They'll have to do that anyway to get disciplined, trustworthy research, but it's a price eminently worth paying.

With Heather Timmons in New York

Cover Story

SCHWAB vs. WALL STREET

Spitzer's case. Fostering a competitive research market is the best way to keep stockpicking honest and unbiased. But to do that, you need independent brokers who can make a business out of selling their research.

As Wall Street wisdom goes: You get what you pay for. The Street should know. It has practically been giving its research away since 1975. Says Patrick McGurn, vice-president of proxy advisers Institutional Shareholder Services: "We've taken analyst research with a whole shaker of salt for some time now."

Wall Street needs to stop using analysts as marketing tools and start charging for research. Even with the

WHAT GOOD ADVICE?

Investment banks say they cannot get decent research without paying analysts big bucks. Think again. Lower-paid analysts at independent shops are making better stock picks.

ONE-YEAR RETURNS ON OVERALL STOCK PICKS AS OF MAY 22

INDEPENDENT SHOPS		INVESTMENT BANKS	
CALLARO ASSET MANAGEMENT	8.16%	MERRILL LYNCH	-2.57%
FORD INVESTOR SERVICES	4.88	MORGAN STANLEY	-3.11
ALPHA EQUITY RESEARCH	3.48	SALOMON SMITH BARNEY	-4.81
COMPUTRADE SYSTEMS	3.02	GOLDMAN SACHS	-6.47

Data: Investors

— C E R T I F I E D P R E - O W N E D L E X U S —

CERTIFIED PRE-OWNED LEXUS. THE LEXUS OF PRE-OWNED VEHICLES.

Given the high standards for which Lexus is known, we simply couldn't relax when it came to our pre-owned vehicles. So, following tradition, each Certified Pre-Owned Lexus is backed by the Lexus of warranties: three years from your date of purchase or 100,000 total vehicle miles.* Not to mention financing options typically reserved for brand-new cars.† You'll even get a complimentary loaner car‡ on service visits. Visit your Lexus dealer today. And test-drive the only vehicles to be designated as Lexus Certified Pre-Owned.



ONLY AT YOUR LEXUS DEALER
lexus.com

*See your Lexus Certified Pre-Owned dealer for warranty details. †Only Tier 1 and 2 customers will qualify for the lowest finance rates. ‡Service loaner cars available on qualified warrantable repairs only. © 2001 Lexus, a Division of Toyota Motor Sales, U.S.A., Inc. Lexus reminds you to wear seatbelts, secure children in rear seat, obey all speed laws and drive responsibly.

BLOODIED BUT RICH

With Andersen gone, the Final Four will do just fine



Just three months ago, the Big Five accounting firms seemed to be on the ropes. Arthur Andersen LLP was starting to disintegrate. Capitol Hill rang with calls to overhaul the firms and clean up their conflict-ridden practices. Corporate clients even stopped buying consulting services from their auditors for fear of the Enron taint. Making partner in a Big Five firm looked like a pretty lousy career move.

What a different picture now. Andersen is a goner. But the Final Four—PricewaterhouseCoopers, Deloitte & Touche, Ernst & Young, and KPMG—are emerging as winners. They're keeping most of their non-audit businesses, notably tax consulting, human resources management, actuarial work, and merger and acquisition advice. Best of all, the new demand for high-quality auditing services post-Enron has given a shot in the arm to the unglamorous business that the firms once claimed couldn't stand alone.

What happened? Andersen—now on trial for destroying documents from its Enron Corp. audits—has taken the fall for the profession's failures. Its collapse created a vacuum in the audit market

that the survivors rushed to fill. And legislation that would have forced the firms to focus just on auditing has lost some steam, thanks to the Bush Administration's indifference and heavy lobbying from the still-influential CPAs.

The result: The firms that will emerge from the Enron shakeout won't lack for profits or opportunities. Ironically, much of their growth will come from their traditional businesses—audits and tax services—and not consulting. That's all the more appealing since Andersen's virtual disappearance. The buyers of Andersen regional offices "have grabbed up market share at 50¢ on the dollar," says Allan D. Koltin, CEO of Practice Development Institute Inc., a Chicago marketing consultant for accounting firms. The Big Five's revenues from tax and audit businesses rose 12.3% last year, while those from info-tech and other consulting fell 1.9%, according to data the firms provided to *Public Accounting Report* newsletter.

The firms have claimed for years that they needed consulting to grow and attract the best talent. Instead they have actually been weaning themselves from these businesses for some time. Their biggest, most controversial moneymaker

during the tech boom—installing and tuning up financial information systems—has been in decline since Y2K sped up. That's why Ernst & Young and KPMG sold their tech consulting units, and Andersen and Deloitte are looking for buyers. The No. 1 firm, PWC, has business valuation and human resources consulting and will spin off its \$5.9 billion IT shop later this summer. But the firms still have a \$14 billion global business in audit, tax, and other advisory services, says Dennis M. Nally, PWC's senior partner. Even in their shrunken state, "the Big Four look to be a darned good investment over the next five years," says Koltin.

Profits, too, should be healthy—firms get their pricing right. In a exhaustive 2000 study of the accounting industry's economics, Yale School of Management accounting professor Robert Antle concluded that auditing is more profitable than consulting. While a single audit engagement can last years, consulting engagements can last years. Enron's failure has inspired directors and shareholders to demand more from their auditors. Some board panels are even instituting quarterly meetings with their auditors, adding billable hours.

Still, the firms must thread their way through



AUDITING THE AUDITORS

The big firms howl that they need consulting. But their core businesses are doing much better

	U.S. REVENUES* BILLIONS	GROWTH RATES FOR		
		AUDIT	TAX	CONSULTING
PRICEWATERHOUSECOOPERS	\$8.06	9.4%	14.6%	-5.3%
DELOITTE & TOUCHE	6.13	11.8	16.1	-3.4
ERNST & YOUNG	4.49	9.8	7.9	-19.0**
ARTHUR ANDERSEN	4.30	19.4	19.4	19.4
KPMG	3.17	14.0	4.8	—**

*Fiscal 2001, ending 6/30/2001 for E&Y, KPMG, and PWC; 6/2 for Deloitte; 8/31 for Andersen

**Spun off or sold most consulting

Data: Public Accounting Report

audit side of the business is a reliable cash cow," says Lynn Turner, director of the Center for Financial Reporting at Colorado University.

James E. Copeland Jr., CEO of Deloitte & Touche, believes that audit demand will grow rapidly in Asia, Latin America, Central Europe, and Russia. "The SEC's push for more corporate disclosure will produce new measures of company and industry performance, such as indexes of customer loyalty or product quality—that will all need to be audited."

Even the doldrums in corporate technology spending, the Big Five were willing this year to make some concessions to reformers. But only to a point: They couldn't accept proposals from Washington requiring companies to change auditors every five years or demand that they very much wanted to continue advising public audit clients on mergers, pension plans, and person-management.

So far, the industry's powerful lobby, fueled by decades of hefty campaign contributions—has headed off all attempts to crimp those businesses. The

House-passed accounting reform bill, backed by the GOP and President Bush, would essentially keep the current system, under which audit committees and the SEC decide whether consulting deals compromise an auditor's integrity. A rival bill backed by Senate Banking Committee Chairman Paul S. Sarbanes (D-Md.) would impose stricter limits, but it's stalled in committee until at least June. To gain the Republican votes needed to pass his bill in an election year, Sarbanes will have to ease up on the firms. Unless new laws restrict their business, the Final Four will continue to offer such fast-growing services as tax planning, deal advice, and company valuations. They hope to expand their current work checking out computer security systems.

The CPAs aren't entirely in the clear, though. A fresh wave of accounting scandals could revive Washington's zeal for reform. And almost a dozen states, led by California, are considering bills that would block CPAs from consulting in a range of areas for audit clients.

The firms also must thread their way through legal minefields. The SEC has acknowledged that it's investigating two of the Final Four. KPMG allegedly failed

to catch more than \$3 billion in revenue-boosting maneuvers at Xerox Corp. And the SEC says Ernst & Young compromised its independence by selling software in a joint venture with an audit client. Both firms have denied any wrongdoing. Enraged shareholders are also likely to bring more cases against auditors who failed to detect or halt financial shenanigans. "Next to asbestos manufacturing, auditing is about the worst business to be in from a liability standpoint," grouches Copeland of Deloitte & Touche.

True, the glare of the Enron spotlight hasn't done much for the image of the profession. And assimilating the Andersen partners and managing their liabilities is likely to be a challenge for the survivors. Even without sweeping legislation, "we still have a couple of years of turmoil ahead, for clients, for partners, and for the firms," says Arthur W. Bowman, editor of *Bowman's Accounting Report*, an industry newsletter. But don't shed any tears for the profession. When it comes to the bottom line, the Final Four accounting firms will have little to fear.

By Mike McNamee in Washington, with Joseph Weber in Chicago

minefields, from SEC probes to investor suits

They're asking you to manage a business, not just a data center. Now you're concerned with profitability. Business forecasts. They even want recommendations on system performance over in market.

Is your current software the challenge?

This, of course, is why HP evolved OpenView software from a network management tool to a sophisticated service management solution—covering everything from networks, storage and system services like ERP, e-commerce and center management. Basically, the entire infrastructure on which core business services depend.

So in addition to managing infrastructure, HP OpenView anticipates and resolves problems according to your organization's priorities—by department, service, even line of business.

Increased efficiency. Lower costs. Higher ROI. Being proactive with recommendations. That's what you expect of you. And what you expect from HP OpenView management software.

HP infrastructure solutions are engineered for the real world business. Because the last time you checked, that's where we all work.

To learn more about how HP OpenView Management software can help run your business, call 1.800.HPASKME, ext. 246. Or visit www.hp.com/go/infrastructure

Infrastructure: it starts with

hp infrastructure management
Management of the Enterprise
Infrastructure from the OpenView 2
Architecture, Monitoring and Management
Platform from Hewlett-Packard



©2001 Hewlett-Packard Company. All rights reserved.



Developments to Watch

CATHERINE ARNST

annual meeting of the American Society of Clinical Oncology (ASCO) in Orlando May 25, 2000 cancer researchers discussed and debated the latest advances in treatment prevention. There were no bold claims for cures. But data from human clinical trials continue to reveal incremental progress. Senior Writer Catherine Arnst reports:

MO'S ARSENAL LD GET OSTER SHOT

OUGH HIGH-TECH CANCER are in the pipeline, chemotherapy remains the primary treatment for most patients. But even chemo can be improved on, as a large study of the Sanofi Pharmaceuticals drug oxaliplatin showed. The Food & Drug Administration rejected oxaliplatin two years ago, but it is widely used in Europe. A U.S. study presented at

ASCO showed it to be significantly more effective against colon cancer than standard drug therapies.

Half of 795 patients got the two standard chemotherapy drugs used against colon cancer, while the other half got the two plus oxaliplatin. Dr. Richard M. Goldberg of the Mayo Clinic, the lead investigator of the trial, says that after one year of treatment, 71% of patients who received the new combination were still alive, compared with 58% of patients on standard treatment. Dr. Leonard Saltz of

Memorial Sloan-Kettering Cancer Center, a leading colon-cancer specialist, says the survival results are the most dramatic he has seen in a colon-cancer trial.

Dr. Alain Herrera, head of oncology marketing for Sanofi, says oxaliplatin has been available throughout Europe since 1999. The FDA asked for more data when it rejected the drug in 2000 because the European trials did not follow U.S. guidelines. The agency agreed in early May to reconsider oxaliplatin on an expedited basis.

ULY, IT'S NEVER TOO LATE TO QUIT

CANCER PATIENTS WHO CONTINUE TO SMOKE DURING CHEMOTHERAPY ARE more likely to die within five years than those who don't. That may be obvious, but many patients—90% of whom get the disease as a result of smoking—fail to kick the habit even during treatment. Dr. George Videtic of Dana-Farber Cancer Institute in Boston reported that of the 186 patients in his trial, 79 smoked during treatment, while 107 quit before chemo started. Both tolerated the therapy equally well, but two years after completion, 28% of nonsmokers were still alive, vs. 16% of smokers. Five years out, 40% of the quitters were still alive, vs. just 16% of the smokers. Ex-smokers have further reason for cheer: A preliminary study found that a derivative of Vitamin A called 9-cis-retinoic acid can reverse some precancerous changes in the lungs of former smokers—a group that accounts for 30% of lung cancer cases in the U.S.

ALTH DEATH RAYS A TROJAN- ISE ATTACK

OF THE MORE EXOTIC cancer treatments discussed in Orlando involved microencapsulated glass beads that show-ta rays onto malignant cancer cells. The approach, called TheraSphere, was created by MDS Nordion of Waterloo, Ont., and tested in a just advanced, inoperable lung cancer.

Over 100,000 of the glass beads impregnated with the isotope yttrium-90 into the liver via a catheter. The beads moved through the small blood vessels, where the radiation attacked the tumors. Of 36 patients treated, tumors shrank in 6 and stopped growing in an additional 18, said Dr. Brian Carr of the University of Pittsburgh School of Medicine. The FDA is now allowing doctors to use TheraSphere on patients who have no other options pending further study

to determine its efficacy.

Telik in South San Francisco has a drug, TLK286, that is activated by the cancer cell's own defense system. Ingested by the patient, TLK286 molecules enter tumor cells and get chopped up by an enzyme that is present in many tumors. The chopping releases chemicals that attack the cancer cell, either killing it or making it more susceptible to chemotherapy. The drug stabilized the disease in half of 44 patients in the final stages of lung cancer.



GIULIANI

VACCINES YOU GET AFTER YOU HAVE SURGERY

VACCINATING CANCER PATIENTS after their initial treatment may be one way to prevent the disease from recurring. Encouraging data were presented in Orlando for two experimental vaccines aimed at prostate cancer, which afflicts millions, including former New York Mayor Rudolf Giuliani. Therion Biologics in Cambridge, Mass., designed its ProstateVax vaccine to prompt an immune response against any cells that display a protein called prostate-specific antigen (PSA), which is overproduced by prostate-tumor cells. The vaccine was tested on 70 patients who had undergone surgery or radiation, with intriguing results. The trial subjects' PSA levels were already rising, usually a sign that the disease will recur. But at the two-year mark, the vaccine had halted the PSA rise in 53% of the patients. Plus, 78% of the patients remained free of the disease.

Cell Genesys in Foster City, Calif., has a vaccine, called GVAX, that is made from inactive tumor cells that are genetically modified to secrete an immune hormone. Researchers tested the vaccine on 34 patients whose prostate cancer had already spread to the bone, which usually marks the final stage of the disease. After 2½ years, 16 of the patients were still alive, compared with a standard life expectancy at this stage of 7 to 11 months. Both companies are still several years away from seeking FDA approval.

BIOTECHNOLOGY

GENENTECH'S BATTLE WITH CANCER—AND INVESTORS

Is Avastin, now in trials, the blockbuster the company needs?

Marlene Ochoa had grim expectations when she was diagnosed with advanced colorectal cancer in April, 2001. But on May 17, 2002, she felt well enough to go out for a celebration—and dance till 1 a.m.—to mark the one-year anniversary of the day she started taking Avastin, an experimental drug from Genentech Inc. The drug, which Ochoa received in a clinical trial, shrank a number of large metastasizing tumors in her liver by 50%. Today, the 53-year-old real estate agent from Diamond Bar, Calif., is back at work, jogging a half-mile a day, and living symptom-free with a disease that normally kills within 12 months.

Her story highlights Genentech's hopes for Avastin, a drug positioned not to cure cancer, but to keep it in check so that the patient can live a longer, productive life. If the drug delivers on that promise, Genentech might have a blockbuster on its hands. But it's far too soon to bank on such an outcome. Now in late-stage trials for colorectal and breast cancer, Avastin is an anti-angiogenesis drug, meaning it's designed to slow the growth of tumors by choking off their blood supply. A few years ago, some cancer researchers promoted this approach as a magic bullet—only to be disappointed by blowups such as Semaxanib, an angiogenesis blocker developed by Pharmacia Corp.'s Sugen Inc. subsidiary that failed in clinical trials in February. It could be many months before doctors have enough data to say that Avastin works in a significant number of patients.

In the meantime, Genentech is at the mercy of its very jittery investors. On Apr. 11 the stock dropped 15%, to \$37, when word leaked that Avastin might cause bleeding and blood clots. On May 19, at the American Society of Clinical Oncology (ASCO) conference in Orlando, Genentech presented upbeat data showing that the drug was well tolerated in



HURDLE Chief Medical Officer Hellmann faces skepticism over this class of tumor-slowng drugs

most patients, but its stock has yet to recover. "People have learned to be really skeptical about anti-angiogenesis drugs," says Dr. Susan D. Hellmann, Genentech's chief medical officer.

The company, though, cannot afford to be skeptical. Avastin is pivotal to fulfilling a promise Genentech CEO Arthur D. Levinson made in 1999: to achieve average annual earnings growth of 25% by 2005. Earnings are expected to grow 18% this year. Genentech's two cancer drugs, Rituxan and Herceptin, accounted for half of the company's \$2.2 billion in sales last year. Rituxan has met Genentech's expectations, but Herceptin's growth is slowing. To hit Levin-

son's goals, the company needs at least one more drug generating sales of more than \$100 million a year.

Genentech has three other drugs in late-stage trials, for lung cancer, psoriasis, and psoriasis, but they all face obstacles. Analysts say Avastin is the one with the potential to become a blockbuster. "This drug is key to helping Genentech regain its luster," says Jenner, manager of the T. Rowe Health Sciences Fund.

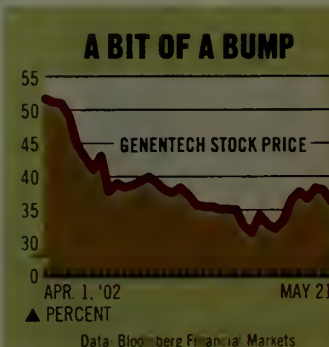
Some shine has definitely come off Genentech over the last year. One arm of a trial aimed at expanding Herceptin's market was suspended because some patients suffered from problems. Last year, the FDA requested more data on Genentech's psoriasis drug, Xelara, and its asthma drug, Tarceva, pushing potential approval to 2003. Genentech did get some good news in May when lung cancer drug, Tarceva, was granted fast-track approval by the FDA. But Tarceva will face fierce competition from Iressa, a similar drug being developed by AstraZeneca.

As for Avastin, Genentech may have to struggle to prove it prolongs patients' lives enough to balance the risk of side effects such as nosebleeds, hypertension, and fever. The data aren't in yet, and the drug's mechanism itself is perplexing. It's unclear how the drug slows the blood supply to tumors, and it doesn't kill them. In fact, it was just presented from a study

showing that patients with advanced kidney cancer who took Avastin could show only a slight delay in the time it took the cancer to worsen from two months to five. "I'm delighted from a tumor response standpoint, but we are a long way from a cure," says Dr. G. W. Sledge, a professor of oncology at the Indiana University Cancer Center.

Genentech plans to release data from clinical trials of Avastin in breast cancer by the end of September, and in colorectal cancer in November 2003. It can only hope for more stories like that of Marlene Ochoa.

By Arlene Weinreb
in Los Angeles,
Catherine Arnott
in Orlando





**Otis wanted valuable
customer information at
the push of a button.**

(You know elevator people.)



At this very moment, hundreds of thousands of people are riding Otis elevators. In fact, this global leader moves six billion people—the entire world's population—every single day. But to ensure their own business, Otis turned to Cognos, the global leader in business intelligence.

Cognos helps Otis maximize an innovative CRM strategy that enables customers to design elevator systems. With Cognos, Otis can transform their powerful customer data into usable, actionable information. Information that's used to generate leads for the sales force, create effective marketing programs, and provide more responsive customer service. Ensuring that Otis's business is headed in the only acceptable direction: up.

Cognos — the business intelligence inside the world's most intelligent businesses.

Discover how self-taking measures for driving business performance. Order
an free copy of *Smart Principles for High-Performance Business* today.

COGNOS®
www.cognos.com/white

THE PROFIT SQUEEZE IS PINCHING B-SCHOOLS

Less exec-ed income means canceled classes and tuition hikes

Applications to MBA programs are at record levels—up 40% and more at many schools. Multimillion-dollar facilities will open on several campuses, including Case Western Reserve University's Weatherhead School of Management, where a \$62 million Frank Gehry building was just completed. All signs of health. But as B-schools close the books on the academic year, financially it's looking like one of the toughest ever. The reason: Corporate America is penny-pinching. As part of their attack on spending in the face of weak

sity of Michigan Business School. "And we're the last thing they add back."

Executive-education powerhouses such as Northwestern's Kellogg Graduate School of Management and Michigan saw a slide in training and travel budgets that was, in some cases, even worse than during the 1991-92 recession. At Michigan, 10 nondegree courses were canceled, including several popular management offerings. Exec-ed revenues are projected to be down about 22.5% this fiscal year, ending June 30.

At most schools, executive education

To head off the pain, last fall Berg got B-school budget officers to trim administrative costs. Lunch was no longer served at staff meetings. Festivities were toned down or canceled, and grad students usually as part-timers found themselves working elsewhere. The moves cut costs, says Feldberg, leaving the schools better able to cope with this year's 17.5% drop in exec ed. One example: deal for next year has already been struck through: Coca-Cola Co., which had signed on the dotted line of a \$1 million contract for a custom program, has postponed indefinitely.

The losses have also affected schools. At the University of Pennsylvania's Wharton School, where open-enrollment attendance slipped about 15%, companies delayed custom programs. Officials cut 15 administrative posts from the exec-ed staff. At Michigan, about 25 posts were axed.

A number of schools have raised tuition. At University of Chicago



Corporate Cutbacks

Many U.S. business schools generate a large chunk of their revenue from executive education, but the sector suffered a big drop-off during the recession and after September 11.

SCHOOL	2000-01 REVENUE FROM EXECUTIVE-EDUCATION PROGRAMS MILLIONS	2001-02 REVENUE*	PER CH
NORTHWESTERN	\$30.0	\$24.0	-2
WHARTON	43.0	36.5	-1
COLUMBIA	18.3	15.1	-1
MICHIGAN	28.6	22.2	-2
CHICAGO	13.5	11.0	-2

*Projected for fiscal year ending June 30 or Aug. 30 Data: BusinessWeek, individual schools

profits, companies are slashing training budgets. And that has reverberated across B-school campuses. How so? Even the most prestigious schools get about 30% of revenues from executive-education programs, which cater to corporate clients.

Now, B-schools are reeling from 15%-to-25% declines in exec-ed revenue. They're retrenching by cutting staff and course selections and scaling back marketing and administration. And when that's not sufficient, they're resorting to tuition hikes—as high as 12%—bumping tuition to as much as \$34,000 a year. "When companies cut, training and travel are the first things to go, and we feel it almost instantaneously," says F. Brian Talbot, associate dean of Univer-

sity of Michigan Business School. "And we're the last thing they add back." Executive-education powerhouses such as Northwestern's Kellogg Graduate School of Management and Michigan saw a slide in training and travel budgets that was, in some cases, even worse than during the 1991-92 recession. At Michigan, 10 nondegree courses were canceled, including several popular management offerings. Exec-ed revenues are projected to be down about 22.5% this fiscal year, ending June 30. At most schools, executive education

sity of Michigan Business School, tuition is up 6.6% for 2002-03. The increase to \$32,600—means an additional \$4,000 for the B-school's coffers. Debra Snyder says that will more than make up for the \$2.5 million in lost exec-ed revenue. But tuition hikes are usually bad news for students, especially considering the tenuous job market and loss of perks employers had been offering, such as partial payoffs to cover loan debt for new hires.

There are signs that 2002-03 will be looking up a bit. Columbia and Michigan are cautiously adding back a handful of staffers, for example. But until corporate profits recover, B-schools are facing another lean year.

By Jennifer Merritt in New

NURSING: ON THE CRITICAL LIST

acute shortage of RNs threatens to cripple U.S. hospitals

When nurse Sherri Stoddard finishes her shift at Sierra Vista Regional Medical Center in San Luis Obispo, Calif., she's routinely wracked with anxiety. Stoddard has so many patients in the maternity ward to look after that she often doesn't immediately notice when a maternal heart rate has slowed or an expectant mother has requested more pain medication. "It's a horrible feeling," she says. Registered nurses such as Stoddard are finding their jobs difficult that they're bailing in droves. The current 26% turnover rate among nurses is the highest in decades. Some hospitals have resorted to offering sign-on bonuses up to \$15,000 and referral fees of \$5,000.

The dissatisfaction among nurses could spiral into a crisis. Squeezed by skyrocketing drug costs and decreasing insurance reimbursement, hospitals have been skimping on staff to the point where nurses complain they can barely do their jobs safely. Resentment is brewing. As many as 8,000 members of the University of California Nurses Association are poised to go on strike if administrators don't agree to improved working conditions. This could be one of the biggest strikes ever in the largest nurses' union in California, threatening such medical centers as the University of California facilities in Los Angeles and San Francisco. Not long aware of the nursing crisis, Cal-



ifornia is phasing in new nurse-patient ratios: one nurse for every six patients, down from patient loads of 10 to 20 per shift today. This could cost the state's hospitals more than \$400 million per year, but it's a case of pay now or pay later. Without enough nurses, hospitals may be forced to close units or turn away patients, exacerbating the health-care crunch. Five other states are also considering the new ratios.

As it stands, recruiting is tough. Beyond the workload, the average RN struggles with mandatory overtime and reams of paperwork—not to mention the middling average annual pay of

\$47,000. Hospital executives have avoided buying new technology that would make administrative tasks easier so nurses could spend more time with patients. Almost half of acute-care nurses are so unhappy they say they will leave before they reach retirement age.

Demographic and economic factors coming into play threaten to make the situation worse. The average age of nurses has risen 7% since 1995, to 45, while nursing-school graduation rates have fallen 23%. Hiring nurses from foreign countries—a favorite tactic during past crunches—won't work now because shortages are a problem worldwide. And the recession has not driven nonpracticing nurses back into the profession, as many had hoped. At this rate, hospitals will be short 515,000 nurses by 2020—exactly the time most baby boomers will be pushing 70 and flooding the system.

Recruiting and retaining nurs-

"HORRIBLE FEELING": Stoddard says maternity care suffers

es will add yet another layer of expense to an industry that is already under strain. Net profit margins at hospitals have fallen from 5.5% in the late 1990s to

2% today. Paying more for nurses will drive up costs further. Those will get passed on to patients in the form of higher health-insurance premiums, which have jumped 11% in the past year alone.

Of course, no fix is cheap. In California, complying with the new ratios would cost about \$200 per patient. But hospital operator Tenet Healthcare Corp. says that if it could reduce its RN turnover rate by just 1%, it would end up saving \$12 million a year. If hospitals don't act fast, they will find themselves short of caregivers just when they need them most.

By Arlene Weintraub in Los Angeles

Rx FOR RNs

The number of unfilled nursing slots will quadruple by 2020, creating strains on the health-care system

PROBLEM

Hospital cost-cutting overloaded nurses with mandatory overtime and unmanageable patient loads.

Hospitals have been stingy when it comes to buying new equipment that would make nurses' jobs easier.

The number of nursing-school grads has plummeted 23% since 1995.

SOLUTION

► California will impose nurse-patient ratios of 1 to 6 starting next year. Five other states might follow suit.

► Hospitals have started implementing new technologies that automate administrative and scheduling tasks.

► New legislation could provide more funds for scholarships, but health-care companies will need to pitch in.

Data: American Nurses Assn., Bain & Co., National League for Nursing

NETWORKS

WHO NEEDS SUPERCOMPUTERS?

Grid software lets companies tap other machines in their network for extra computing muscle

Each workday, the scientists at Monsanto Co. try to develop new ways to genetically alter food staples such as rice, corn, and wheat to make them more resistant to the harsh elements of drought and cold. That kind of DNA tinkering requires the painstaking matching of genetic patterns to other known sequences so scientists can figure out what traits yield better crops. The amount of data collected by Monsanto scientists on animal and plant genes fills CDs that would stack 500 feet high—enough to send even the most powerful supercomputer into cardiac arrest.

That used to be a drag for researchers because it meant they could analyze only 10 to 50 genes per year. "With our big computers, gene-analysis jobs were taking up to six weeks to finish," says Mark Trusheim, president of Cereon Genomics LLC, a Monsanto subsidiary specializing in genetic research. "That was a major bottleneck."

Two years ago, Monsanto made a breakthrough, though it wasn't genetic. The company is pioneering a technology called grid computing, software that lets users plug into computing power on the Internet or private networks as easily as electricity can be drawn from the power grid. Instead of spending tens of millions of dollars buying bigger computers, Monsanto taps hundreds of smaller—and less costly—Compaq Computer and Sun Microsystems machines already in use at its St. Louis headquarters and Cereon's offices in Cambridge, Mass. Grid software tackles a problem by slicing it into thousands of tiny pieces that can be solved independently and then spliced back together. When Monsanto's machines aren't handling other tasks, they get a small calculation to work on—lickety-split. Now, a gene-analysis job takes less than a day, and Monsanto can

examine thousands of genes a year—a fiftyfold increase over what was possible five years ago.

The rest of the computing world may be on the edge of a similar pop in power. Grid technology, born in the halls of academia and government research labs, is going mainstream. On May 23 at the Electronic Entertainment Expo in Los Angeles, startup online game producer Butterfly.net Inc. and IBM introduced the first computing grid for the Internet game market. With a grid setup, Butterfly can

hicle crash tests using a grid network. Pharmaceutical giants Adventis, SmithKline, and Pfizer evaluate disease and develop treatments. Aircraft-engine maker Pratt & Whitney tests computer-aided simulations of engines, slashing in half the time and cost it once took to conduct these tests. "We see grids as the next big thing in computing and the evo-

THE NEW TEAMWORK

Scientists at Monsanto are searching for genes they can manipulate to create new strains of crops that are resistant to drought and cold, require less pesticide, and are more nutritional. Here's how a grid computer network helps:

1 THE PROBLEM



To discover and analyze new genes, scientists examine tons of DNA data. That means searching a 10-terabyte database—that's more than a stack of CDs piled 500 feet high. Monsanto's most powerful computers take up to six weeks to complete a gene-analysis job.

handle an unlimited number of online players by automatically calling on other machines at an IBM data center when usage spikes and comes close to overwhelming the service.

Grid computing is gaining popularity in other corners of Corporate America as well. Carmakers General Motors Corp. and Ford Motor Co. analyze ve-

hicle crash tests using a grid network. President Irving Wladawsky-Berg

Indeed, grids could one day transform the economics of computing. The most complex computer jobs typically require a supercomputer, which can cost \$30 million for a middle-of-the-road machine. If a company doesn't own one of these digital Ferraris, the task can

cruciatingly long time. But by ag-
gating the power of smaller, more
flexible computers, grids can out-
pace the largest supercomputers for a
fraction of the price—around \$25,000
per basic software and services.
“Companies are trying to pool com-
puter resources,” says Rick Hayes-Roth,
technical officer for Hewlett-
Packard Co.’s software group. “That
money. That’s what companies are
going for these days.”

There are plenty of pesky challenges
that grid computing to overcome—from
managing computer resources to pre-
venting gridlock to making sure security is
tight. The fact is, piping computing

Stuart E. Jackson, Incyte’s director of
bioinformatics.

When more of the kinks are worked
out, grids have the potential to fit hand-
in-glove with a host of new Web serv-
ices. For example, a grid could be the
backbone to orchestrate all sorts of in-
formation coming from different sources
to an online travel site—everything
from airline ticketing and hotel reser-
vations to flight-delay notifications and
traffic-congestion alerts. Such services
can be provided today, only it requires
loads of expensive hardware and soft-
ware. A grid could turbocharge such a
service by breaking it into simple tasks
that could be tackled instantly by ma-
chines already on the
Net. “Integrating Web
services with grid
computing will push comput-
ing toward being a utility
that you can subscribe to
on demand,” says Ian Fos-
ter, a senior scientist at Ar-
gonne National Laboratory
and a member of the
Globus Project, a group
that’s developing technical
standards for grids.

ing the idea that the network is the
computer,” says Wolfgang Gentzsch,
Sun’s director of grid computing. “Now,
the grid is the computer.”

That’s the bet Butterfly.net is mak-
ing. The Los Angeles company has en-
gineered a breakthrough in the online
game industry. The way online games
work today, customers are relegated to
separate servers that support up to
4,000 users. That limits the number of
players who can interact with one an-
other and creates reliability and sup-
port nightmares. When a server is down
or software needs to be upgraded, play
comes to a dead stop. What’s more, own-
ing all the hardware necessary to carry
a variety of games online is expensive.

So two-year-old Butterfly cut a deal
with IBM to provide the horsepower for
the online-gaming service. By running its
grid software at an IBM data center with
hundreds of servers, Butterfly can draw
the computer power it needs when the
number of users spikes. The software
does this by automatically routing com-
puter resources that are idle at the data
center to help with the workload from
the most popular games. For the on-
line-game industry, “that’s the Holy

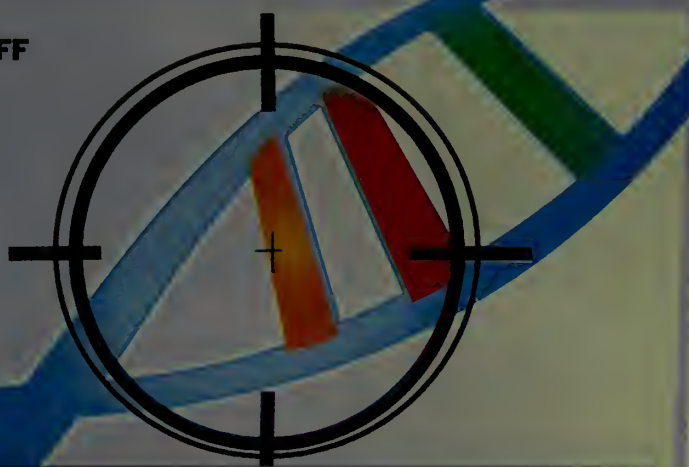


ago, Monsanto created a grid network of
smaller, inexpensive machines. Software
would slice off a portion of the database so
machines can quickly analyze it. Each
machine sends the results back and asks for more
data until the bigger problem is solved.

across a network increases
opportunities for hacker intru-
sions, especially if the network be-
sides is the Internet. And with
large network of computers
working on a common problem,
being sure they have the right
data can be tricky.

Companies must be willing to
share data to get their grids working
smoothly. Incyte Genomics Inc., a
San Diego (Calif.) biotechnology compa-
ny, uses a 1,000-machine grid to do
genetics research to build databases
useful to pharmaceutical companies.
Finally, not all the machines
in a grid were being sent informa-
tion at the same time, which increased
chance for errors. Incyte fixed this
by transmitting data over the network
so that all of the computers could
work on it simultaneously. “Keeping
data accurate is an issue,” says

3 THE PAYOFF



A gene-analysis job runs in less than a day. Monsanto can hunt for
thousands of new genes per year. Five years ago, Monsanto knew the
detailed sequence and structure of only a few hundred genes in the plant
world. Today, it knows several thousand.

That day is getting closer. Early this
year, IBM and the Globus Project made
available a set of specifications to let
businesses share computers and Web
services over a grid. IBM says all its
products will come with grid software as
a standard feature. Rivals also are stak-
ing out their ground. On Apr. 9, HP un-
veiled software to set up grids within a
corporate data center. And Sun Mi-
crosystems Inc. offers grid software for
free on its Web site. “We’ve been push-

Grail,” says Butterfly CEO David Levine.
“This technology is going to be ex-
tremely important in the next decade.”

Once security and other technical chal-
lenges are resolved, there may be no
holding back grids. Some day, companies
might be able to tap into vast networks
of computers they don’t even own—and
pay a fee for what they use. Just plug
into the grid and compute.

*By Darnell Little in Chicago
and Ira Sager in New York*



MAYBE "CUSTOMER SERVICE" SHOULD BE MORE THAN ONE DEPARTMENT.

When everyone focuses on customers, something amazing happens: departments communicate, questions get answered, and products keep moving. That's why the mySAP™ Customer Relationship Management solution links customers with your complete organization. It keeps data consistent across all touch points and it's the only CRM solution that integrates with all other business processes, so it shortens sales cycles and lowers costs. Which means your customers won't be waiting around for good service, they'll be too busy getting it. For more info, visit www.sap.com

THE BEST-RUN E-BUSINESSES RUN SAP



BusinessWeek

Investor

MAKING LIFE RICH

Small-Cap Value Funds

So Much Money,
So Few Choices

Locking in
The Dollar's
Value

Managing
All Your
Passwords

Barker:
Advice to
The SEC



Awash in Cash, With No Place to Go

Small-cap value funds have hit the wall



BY LEWIS BRAHAM

Three years ago, portfolio manager Barbee of the small-cap Aegis Fund was practically begging shareholders to stay in his fund. But few had interest in the cheap Old Economy that he was buying. While Barbee was acquiring shares of auto-parts manufacturers, real estate operators, and defense contractors with market caps of less than \$1 billion, investors were flocking to Cisco Systems and other tech hoo! "We spent a lot of time then trying to convince clients of the folly of investing in giant tech stocks," he says.

After a two-year rally in small-cap shares (chart), investors have gotten his sage. Since the start of 2002, his fund has more than doubled in size, to \$175 million, thanks mainly to new investors. Now, the problem for Barbee and others is that small-cap value stocks are no longer cheap. "Historically, these stocks trade at a 40% discount to the value of growth stocks during the worst of times and at parity during the best of times," says Pradhuman, a Merrill Lynch small-cap strategist. Today, he adds, the discount is 10%, which means there isn't much upside at all.

Indeed, there is no longer all that much difference in valuations between the rallying small-cap value funds and other U.S. equity funds. The trailing one-year price-to-earnings ratio for small-cap value funds is up from 18 in 2000, to 25.7 in April, 2002. That's not much cheaper than the 31.2 average p-e for all domestic equity funds and the 33.5 average for small-cap growth funds.

If you're an investor in a small-cap value fund now is the time to reassess your holdings. If more bloated your fund, the greater the chance it will underperform its peers. The biggest danger is either the fund is sitting on too much low-yielding cash or it is acquiring stocks that are not good values, because they're too expensive. If they are cheap for a good reason. In the category would be telecom companies with heavy debt loads or companies with severe asset-liability litigation liability.

Because of the dearth of bargains, Barbee is having a hard time investing the new money. More than half the fund's assets are in cash. More quandary is not unique. According to fund manager Lipper, assets in small-cap value funds have more than doubled, from \$31.5 billion to \$82 billion since the stock market peaked in 2000. Most of that growth has come from investors flocking to cratering growth stocks.

Not every fund handles the inflows in the same way. The managers generally have several methods for dealing with an excess of new money: shutting the fund to new investors; holding cash; buying more stocks; buying large-cap stocks; or buying more expensive stocks. According to Morningstar, all five methods are currently in use. Each approach has different consequences for shareholders (table).

Closing the fund to new investors is ide

holders. They can add to their holdings, with new money shut. The manager isn't to search for new or bid up prices on g ones. Eleven top ap value funds have in the past year, including Wasatch Small value and Numeric ors Small Cap Value which have both performed well.

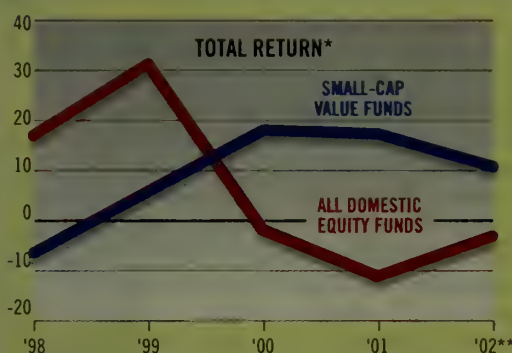
size at which a closes is important. study conducted by manager Turner Investment Partners estimates that \$3 billion is maximum level of asset small-cap value fund manage and still trade out of illiquid small easily. But effective g and effective ing are two different . Many value man think the asset size t depend on the t of bargains available the market. "Given current valuations, probably shut down 0 million," says Bar. But if stock prices gnificantly, our cawould grow." Nu- Investors' fund, closed with \$250 n, is the top per-

g small-cap value fund this year. also important to consider how much of m's total assets are invested in the sector. m Blair Value Discovery Fund recently with just \$150 million in assets, but the ad an additional \$850 million invested in me style in private accounts. "We trade our e accounts and the mutual fund together," he fund's manager, Glen Kleczka. So any ase or sale of a stock has a \$1 billion entind it, not a \$150 million one. ding cash is less desirable than closing the because it will act as a drag on performance small-cap value stocks rally. It also means paying the higher fees of a stock fund to e low returns of a money-market portfolio. e defends this strategy, on the grounds t keeps him from straying from his investstyle. "We want to have the right valua-before we put the cash to work," he says. d, it's getting harder to find small-cap selling below book value. Barbee now has ewer stocks to choose from than he had ears ago. Moreover, the cash will act as a n if small-cap value stocks fall.

Small-Cap Value's Drift

FUND MEASURE	JUNE 20, 2000	APR. 30, 2002
Average p-e ratio	18.0	25.7
Median market cap (millions)	\$580.5	\$921.3
% portfolio in cash	4.3%	7.5%
Stocks per fund	169	196
Funds closed to new investors	5	18

Reversal of Fortunes



▲ PERCENT
*INCLUDES CAPITAL APPRECIATION PLUS REINVESTMENT OF DIVIDENDS BEFORE TAXES
**AS OF APR. 30

Data: Morningstar Inc.

Some managers would rather buy more richly valued stocks than sit with cash. They argue the move is justified as the most beaten-up sectors—technology and telecom—offer some good value. And sure, the p-e ratios are unusually high, but that's because of the companies' depressed earnings. "Our definition of value is not the traditional one," says portfolio manager Warren Isabelle, whose \$150 million ICM/Isabelle Small Cap Value Fund has 25% of holdings in tech stocks. "We'll go wherever we can find bargains."

Many other value managers are dipping into the tech sector. But that begs the question: Why buy a small-cap value fund in the first place if it owns the same stocks as a small-cap growth fund, which may have more experience with those types of companies? "The growth stock side of the small-cap equation looks fairly attractive right now," says Preston Athey, portfolio manager of the T. Rowe Price Small-Cap Value Fund. "If I were free to invest in any area, I would find a lot of happy hunting on the growth side."

Athey isn't chasing tech, but he has been buying a lot more stocks. His \$3 billion fund has 250 positions, up from 200 at the end of 1999, suggesting that he may be resorting to marginal picks. "When you increase the number of stocks in your portfolio, you're really putting in your B-rated ideas," says Aegis' Barbee. Athey says he has 30 T. Rowe analysts helping him pick stocks, much more than smaller funds such as Aegis and ICM/Isabelle, which only have one or two analysts. So he may be able to find more good stocks. But his staff has reached its limit, and on May 24, he is closing the fund. "I'm not willing to buy every stock I own at a higher and higher price to get rid of new cash," he says.

Still, given his fund's size, he may have waited too long to close. Smart investors should buy a small-cap value fund that agrees beforehand to close at a specific size—the smaller the better. Some fund companies, such as Undiscovered Managers, disclose their size limits on their Web sites; others will give you a closing range if you call. But with all of the hot money in this sector, it may be wise to avoid it right now and look for opportunities elsewhere.

If you're an investor in a small-cap value fund, now is the chance to reassess your holdings. The more bloated your fund, the greater the chance it will underperform its peers

Bucking A Weaker Buck

How you can lock in today's exchange levels

BY ANNE TERGESEN

The easiest way to freeze the dollar's value at today's rate is to buy travelers' checks denominated in the currency of the countries you plan to visit

You've booked your plane ticket, made hotel reservations, and located the vineyard that produces your favorite wine. But you may not have noticed that the U.S. dollar, after years of strengthening, is starting to fall—and that can upset vacation budgets. "People often don't plan for their money needs as carefully as they do for their touring needs," says Maria Mendler, spokesperson for Citibank. Now, some products make it possible to lock in the current value of the dollar. That way, you can protect against a further erosion of the greenback and its purchasing power.

Granted, it's not easy to predict the future of exchange rates. But with most economists forecasting more weakening ahead for the dollar against the euro, yen, and some other currencies, securing protection against a decline in the dollar might make sense.

True, the greenback has been strong against most other major currencies since the late 1990s. But with U.S. financial markets weak, foreign demand for U.S. stocks, bonds, and other assets has slowed this year—causing demand for the dollar to fall, as well. Unless foreign investors suddenly turn bullish, the dollar—which is down nearly 7% against the euro since early February—is likely to fall even more.

What can you do to avoid the prospect of encountering exchange-rate sticker shock overseas? The simplest way to freeze the dollar's value at today's level is to buy travelers' checks denominated in the currency of the countries you plan

to visit. American Express offers travelers' checks in six foreign currencies, including the euro, yen, and Australian dollar. The day you place your order, you lock in an exchange rate and generally pay a 1% fee.

A better bet—especially if your travel is three or more months off—is to open a foreign currency savings account or certificate of deposit. That way, your

money may earn interest until you wish to pay for your Paris vacation or your senior year in England.

Unless you are a big customer, you won't find nondollar accounts at most banks. But you can find them at an online bank. Everbank (800-492-2222; www.everbank.com), a division of Fidelity Investments, offers accounts in 20 currencies. Everbank also offers a good option on exchange rates, which average about 1% more than the wholesale "interbank" rates big banks pay. In contrast, American Express adds a 2% fee on to the interbank rate for overseas credit-card charges.

To open a savings account at Everbank, you must deposit at least \$2,500. The account will earn interest unless it holds at least \$5,000. Even then, you'll earn less interest than the meager 0.7% Citibank offers on regular-based savings accounts. A euro account, for example, will accrue only 0.125%—or 0.5% for balances above \$75,000.

If you want higher interest rates and wish to change at least \$10,000, look into a CD. On 12-month CDs, rates range from 0.01% on the dollar to 10.25% on the South African rand. Generally, you can get a CD with 3-, 6-, 9-, and 12-month maturities. You may also be able to arrange a customized CD to mature right before you leave. Plan to leave the money in the bank until the CD matures or you'll forfeit your interest. In a savings account, in contrast, you can take out money any time.

You can have the proceeds wired to a bank for your hotel. But don't wait until the last minute, as wires take two days to clear. Alternatively, if you plan to pay most of your expenses with credit cards or cash from ATMs, convert your dollars back into dollars before leaving. If the foreign currency has appreciated against the dollar since you bought it, you'll have more dollars to pay your bills when you return home.

These maneuvers won't do you any good if you buy a foreign currency that declines in value by the time you travel. But with all the downward pressures on the greenback, locking in today's prices for the dollar is a reasonable

The Dollar's Decline

The U.S. dollar has fallen in the past year against some of the world's major currencies.

	CURRENT VALUE*	VALUE A YEAR AGO	CHANGE
SWISS FRANC	1.58	1.74	-9.2%
AUSTRALIAN DOLLAR	1.81	1.89	-4.2
EURO	1.09	1.14	-4.4
POUND	0.69	0.69	—
YEN	126.05	123.58	+2.0

*Equivalent of \$1, as of May 20

Data: Oanda.com



and the Password

...#%?@&!

to recall your PINs and protect them from theft

**HARRY
STRONG**

Password? Sure, I know my password. My four-digit personal identification number for my credit and automated teller machine cards is my ex-wife's birthday. My eight-letter password, for computer log-ins and Web sites, is the name of the office's former FedEx driver. That's how it was, at least, until password hell broke out. More and more, even free Web sites make you register before you can get a peek. Now I count 49 passwords I have to remember, and some, such as the one that gives me access to my company's network, I have to change every 90 days or so.

It's enough to make me paste yellow stickies all over my computer—a violation of the No.1 password security rule. But there's a safer and only slightly less convenient way. It's called a password manager, a piece of software that organizes all of your passwords and PINs and stores them in an encrypted file on your computer.

You can download hundreds of password managers from the Internet. Most cost \$10 or \$20 after a short trial, but some free ones are just as good and harder for hackers

to crack. I looked at those and put together a shortlist of top-rated programs you can trust (table). One tip is to avoid password managers that store your data on their servers instead of your PC or are supported by advertising and are likely to monitor your surfing.

I have been using a program called Password Safe for several years. (Don't confuse it with PasswordSafe, which stores your list on its Web site.) It and other early password managers, such as Whisper 32, are rudimentary, but they do the job. You type in a title to identify each Web site, network log-in, or e-mail account along with the user I.D. and password for each one. The program encrypts the list and stores it on your computer.

To decode the list, you must use the key, which is...another password. It's a good idea to pick a phrase instead of a word. Mine is 28 characters long, but it's the only password I have to remember. When you need a specific password, unlock the file and look it up. Click on the title and the password is temporarily stored in memory; a second keystroke or mouse click will paste the word into the Web site's log-in box.

Password managers have evolved over time so if you want more features, pick a newer one. With Access Manager or Oubliette, you can also store the Web address so you can go directly to the log-in page at the same time you retrieve your password. All of the programs will automatically generate hard-to-guess random passwords for you, such as 6sAH27f. That's handy for Web sites you rarely visit.

KeyWallet, introduced last year, is a more ambitious program. It can even create the list if you want, remembering each keystroke you type when you first log on to a Web site. On subsequent visits you drag and drop your user name and password to fill the log-in boxes. Apple computers come with Keychain, similar to KeyWallet.

Whether you use a password manager or not,

here are a few tips for creating passwords: Because password-hacking programs often are based on lists of common words, don't use a word found in a dictionary. Don't use a word followed by two numbers. Don't use any part of your name, address, or birthday. Don't use the same password for more than one account. Use upper and lower-case letters, numbers, and such symbols as # and &, if you can.

If you use a handheld device, store your passwords there so the list is handy. Zetetic's Strip 1.0 or Yaps 2.5 from MSB Software are free password managers designed for the Palm. Wherever you keep them, be sure to have a backup, say, on a floppy disk. Or print out your list, scrawl your master password on it, and store it with your banking and charge-account documents. This will protect all your passwords against a computer crash, as well as your own failing memory. ■



Free Passware

ACT/WEB SITE	COMMENTS
ACCESS MANAGER citi-software.co.uk	Creates alphabetical, but searchable, list of entries. Click on password list to open corresponding Web sites. Copy and paste log-ins with mouse clicks.
KEY WALLET wallet.com	Best-looking, most automated manager. Creates entries as you log in to each application or Web site. Drag and drop single entry to fill user I.D. and password boxes simultaneously.
OUBLIETTE pdi.net/~eristic/free	Allows up to 25 categories of passwords. Reach Web sites from password entries. Generates random passwords of any length and includes symbols.
PASSWORD SAFE counterpane.com/html	Easiest to use, but with limitations: Can't print list; can only create 8-digit alphanumeric passwords. Don't confuse with PasswordSafe, a different product.
WHISPER 32 org	Very simple Windows program stores passwords in single list. Copy user I.D. and password to log-in boxes with edit menu, keyboard commands.

Laser Your Way To Younger Looks

Photorejuvenation zaps blemishes, but it's pricey

BY KATE MURPHY

The procedure is quick and requires minimal recovery time. Experts recommend five sessions—at up to \$1,000 each—but the effects aren't permanent

While Botox injections have drawn media buzz, it's not the only new cosmetic procedure billed as a relatively painless way to get younger-looking skin.

A growing number of dermatologists and plastic surgeons offer a laser treatment, called photorejuvenation, that can remove the ravages of sun and age, from wrinkles to sun blotches and burst capillaries. Like Botox injections, the procedure is quick, requires minimal recovery time, and leaves the patient looking younger—but not in the dramatic fashion of a face-lift. Another similarity to Botox: The effects aren't permanent, and doctors can't say how long before they wear off, because the therapy is just 18 months old. That brings up another caveat: Many doctors don't have much experience with the technique.

Photorejuvenation involves the application of light to the skin at wavelengths of 500 nanometers to 1,450 nm. The beam goes through the skin's top layer to the dermis, where the energy destroys melanin, which causes pigmentation, and hemoglobin, which gives broken blood vessels their red color. It also stimulates the production of collagen, the protein that makes skin supple. Older therapies used light with wavelengths of around 10,000 nm to essentially burn off the top skin layer to promote new skin growth. That left your face raw and peeling for weeks.

Photorejuvenation technology evolved from the use of lasers to eliminate broken blood vessels. Doctors noticed the skin in the treated areas became smoother. New devices have cut treatment time, and they now have cooling mechanisms to keep the skin from getting too hot. This has made the treatment safer. The procedure takes only 20 minutes, which is why Dr. David Goldberg, di-



FACE TIME: Goldberg treats a patient

rector of Skin Laser & Surgery Specialist offices in New York and New Jersey, calls the procedure "the lunchtime laser."

For the best results, though, you'll have to give up a few lunch hours—and a lot of money. Experts recommend five sessions, about three weeks apart. "This is not a one deal," says Dr. Richard Glogau, clinical professor of dermatology at the University of California, San Francisco. Since each session costs about \$1,000 and isn't covered by insurance, you'll need to cough out \$5,000 before you get dewy-looking skin.

Although most patients start to see res-

ults after their third visit, says Dr. Hupkovich. After her third session, Hupkovich saw improvement in her skin. After the first of her procedures, Hupkovich, a 54-year-old office manager in Johnstown, Pa., saw the treatment last year. She got rid of freckles and brown patches. "After four days, some freckles started to come off," she says. As for side effects, she had some swelling around her eyes and felt as though she had a sunburn for a day.

Doctors don't yet know how long the effects will last, but patients say

benefits have held several months after treatment. While Hupkovich still has freckles, "they're lighter now, and my skin has a smoother feel," she says.

When looking for a practitioner, you'll want to find a dermatologist or plastic surgeon experienced in the procedure. Ask for reference photos of "before" and "after" photos of other patients. You should also inquire about the type of laser the doctor intends to use for your condition. Lasers emitting light with wavelengths in the 500-nm-to-600-nm range are effective for freckles and spider veins, while those using wavelengths in the 1,320-nm-to-1,450-nm range are better for fine wrinkles. Higher wavelengths are said to go more deeply into the skin to stimulate collagen production. Dr. Robert Weiss, assistant professor of dermatology at Johns Hopkins University Medical School, says he often uses two or three types of lasers in combination.

Be aware, too, that doctors are divided on the suitability of the therapy for those with sensitive skin, because lasers destroy pigmentation. Some practitioners say the therapy is safe if you have a tendency to develop precancerous growth, but it's not a good idea if you have a history of herpes or cold sores, because light activates the virus.

Finally, don't expect the therapy to give you brand-new skin. Photorejuvenation can back the clock a bit, but it won't stop it.

Finding a Surgeon

AMERICAN ACADEMY OF DERMATOLOGY

www.aad.org
888 462-DERM

AMERICAN SOCIETY OF DERMATOLOGIC SURGERY

www.asds-net.org
800 441-ASDS

AMERICAN SOCIETY OF PLASTIC SURGEONS

www.plasticsurgery.org
888 4-PLASTIC



most intellectual



cutest smile



best hair



sharpest image
hp digital projector xb31



gets around
hp digital projector sb21

Introducing the digital projectors most likely to succeed.

With 1500 lumens, the **hp digital projector xb31** projects the most brilliant, vivid images for a projector weighing less than 4 pounds. It features a contrast ratio of 1800:1 and XGA native resolution, for presentations that impress. And with a breakthrough weight of 2.2 pounds (lighter than most laptops), the micro-portable **hp digital projector sb21** is the tool of choice for mobile professionals on the go.

For limited-time, introductory promotions including a **FREE** subscription to *Presentations* magazine, go to www.hp.com/go/projector. To buy now, visit your local hp reseller or call 1-888-355-9836 and mention promotion code 12254.



Let the popularity contest begin.

DLP™
A TEXAS INSTRUMENTS TECHNOLOGY


invent

POWERFUL WOMEN, POWERFUL MESSAGE



BY TODDI GUTNER

hers@businessweek.com

The first Women's National Leadership Summit showed how far the movement has come—and pointed the way toward innovative actions in the future

In the past century, women fought for such basics as the right to vote, own land, and establish credit. Then, women struggled for a seat at the tables of power and fame—from the corporate boardrooms and the halls of Congress to the space shuttle and the tennis court.

Today, the women's movement is in a new, complex phase. Women have slowly ascended to leadership roles in all sectors of the economy, albeit in small numbers. Each woman who makes it to the top of her field is usually alone once she gets there. But because the fields and agendas are so diverse, no one simple message resonates across the board.

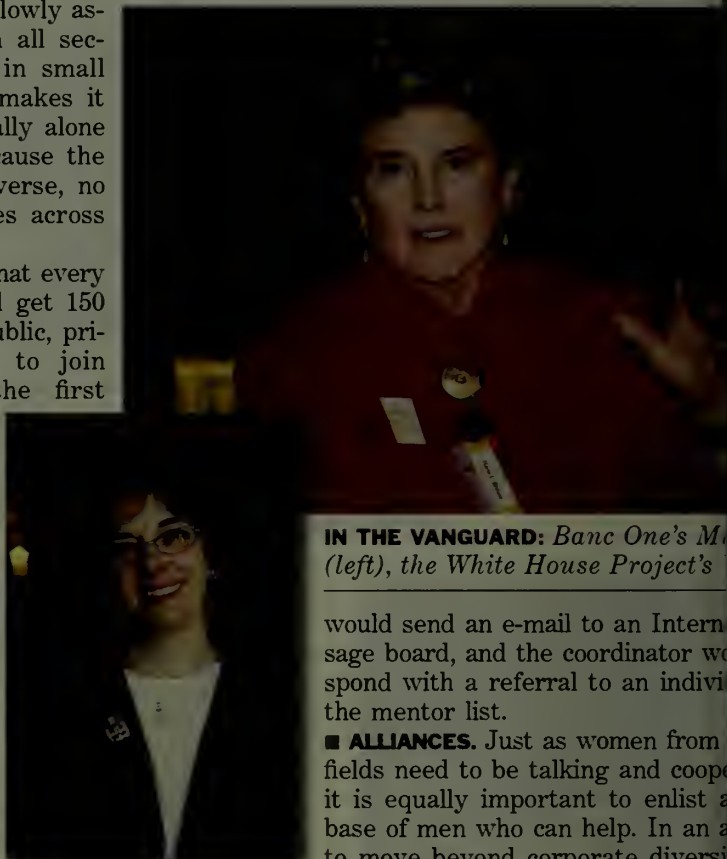
To hash out a list of issues that every woman can rally around—and get 150 high-level women from the public, private, and nonprofit worlds to join forces—is what sparked the first Women's National Leadership Summit in Washington, D.C., in early May. The organizers were Heidi Miller, the newly appointed chief financial officer of Banc One, and Marie Wilson, president of the nonprofit New York-based White House Project, which fosters women in leadership roles. Despite the attendees' prominence in their own fields, many were meeting each other for the first time. The goal, said Miller, is “to merge our messages and raise our voices together so that all women can move forward.”

Many of the issues raised were familiar, from promoting pay equity and improving child care to preventing violence and getting more women on corporate boards. However, several ideas stood out for their originality and their relevance to a wide range of women.

■ **VISIBILITY.** Women have achieved success in most areas, but few outside their fields know who they are. This point was emphasized in a White House Project study that was completed last June and updated after September 11. It found that male guests outnumber female guests on Sunday morning talk shows, such as *Face the Nation* and *Meet the Press*, by as much as 13 to 1. The post-September 11 results were especially disheartening when you consider that women head the top three Senate subcommittees dealing with terrorism. “These programs set the political agenda as well as show Americans who the important leaders are,” said Wilson. To increase the visibility of important women, participants decided to create a

national electronic Rolodex of female experts in various areas and send it to media outlets.

■ **MENTORING.** This has been a buzzword to permeate America for years. But in a new twist, instead of relying on one-to-one relationships between mentors and charges, conference attendees plan to assemble a mentoring network of experts who can provide support at all stages of a woman's career. For example, a new home mother who is preparing to reenter the workforce can tap a recruitment specialist for help with her résumé or interviewing skills. An entrepreneur seeking capital can call on an angel investor for leads. Those needing



IN THE VANGUARD: Banc One's Miller (left), the White House Project's Wilson

would send an e-mail to an Internet sage board, and the coordinator would respond with a referral to an individual on the mentor list.

■ **ALLIANCES.** Just as women from different fields need to be talking and cooperating, it is equally important to enlist a base of men who can help. In an effort to move beyond corporate diversity programs, participants want to promote gatherings outside the office where top executives of both genders can offer their perspectives on how to advance women. These gatherings would use a high-profile host, such as feminist Gloria Steinem or Alexandra Leighton, president of the Leighton & Co. mutual bond firm, as a draw. They would be similar to the successful Women's Campaign Fund dinners, where groups of influential people get together to support female political candidates. At a recent WCF dinner, I sat next to former Federal Reserve Chairman and Enron fixer Paul A. Volcker.

It may be hard to define the next phase of the women's movement. But following through on such recommendations offers a place to start.

BusinessWeek online

To join a discussion in our forum, see hers.onlinewww.businessweek.com/investor/



INSTRUMENTS FOR PROFESSIONALS
Breitling has a single-minded commitment to building ultra-precise and ultra-reliable wrist instruments intended for the most demanding professionals. Our obsession with quality. Our goal is performance. Day after day, we consistently enhance the sturdiness and functionality of our chronographs. And we submit all our movements to the merciless testing procedures of the Swiss Official Chronometer Testing Institute (COSC). One simply does not become an aviation supplier by chance.

Greenwich Time

CARMEL BY THE SEA

OCEAN AVE. BETWEEN SAN CARLOS & DOLORES
CARMEL, CA
831.625.3095 • 831.624.7591

FOR A CATALOG PLEASE CALL 800/641 7343

WWW.BREITLING.COM



BREITLING
1884

INSTRUMENTS FOR PROFESSIONALS™

A THREE-POINT PLAN FOR SEC REFORM



BY ROBERT BARKER

rb@businessweek.com

A specter is haunting Wall Street—the specter of Main Street retreating from investments and toward savings, going from stocks to CDs. That's why, as the late, lamented bull market nears its 20th anniversary this summer, “we are on the verge of the greatest overhaul of securities regulation since the SEC was created,” Securities & Exchange Commission Chairman Harvey Pitt said recently. “Nothing is off the table.”

Pitt was addressing an Investor Summit that he called on May 10 in Washington to air investors' concerns and answer questions. I listened, via the Web, to more than three hours of talk, most of it pertinent (box). Yet some specific investor demands need amplification. Here's a short list of concrete fixes. If Wall Street and its regulators can't deal with this simple stuff, their reform effort will have failed:



■ **FASTER.** A CEO today can dump a ton of his company's stock on the first day of the month and need not report it until the 10th day of the next month. Not only should that disclosure be made much sooner—within a day or two of the sale, as now is being discussed—but such insider trades should be disclosed for free via the SEC's Web site, which is not the case today.

Quarterly and annual corporate reports, now required 45 and 90 days, respectively, after each period, will likely be accelerated to 30 and 60 days. That's good, but faster filing should not end there. Mutual-fund holdings should be disclosed at least quarterly instead of every six months, the current rule. Opponents say faster disclosure will make it harder for funds to trade without tipping their hand and ultimately hurting investors. But companies that manage \$100 million or more—including most fund advisory firms—already must

disclose portfolio holdings 45 days after the end of each quarter. Cut that to 30 days, tops. Positions, now exempt, should be required as well as longs.

■ **FAIRER.** The SEC's Regulation FD, or Fair Disclosure, seems to have helped put individual investors on a more equal footing with professionals when companies disclose potentially market-moving information. Before its adoption in August, 2000, the public routinely was kept in the dark from management's conference calls with stock analysts. Not so now. There remains, however, a forbidden zone—the “black box” shows” put on for institutional investors by companies preparing to sell securities, particularly in initial public offerings of stock. Just as the SEC was able to open the public via the Internet to its own recent Investor Summit, investors small as well as large should be asked to attend and pose questions at pre-IPO presentations. One thing to read a prospectus laden with legalese is better to hear how management discusses what's in the prospectus.

■ **PLAINER.** Speaking in legalese, regulators have long encouraged the use of “plain English” in securities filings. A charitable

assessment of this initiative would be to say it has achieved limited success. To any who doubt this, I point to the 749-page proxy statement (including Annexes A through N) filed recently by AT&T. If you own AT&T, you're supposed to read this to decide how you'll vote by July 10 on the company's plan to restructure and merge its cable unit with Comcast. Meanwhile, regulators while trying to make investor communication clearer to more than just the securities bar—must also try setting a good example. In SEC lingo, an AT&T proxy is a “DEFM14A.” A mutual fund's annual report is an “N-SAR.” A tender offer material is a “13E-4” or a “14D-1.” Our government can do much better.

Only a fool would expect Washington to solve every problem in today's stock market. As SEC Commissioner Isaac Hunt put it: “The burden rests with individual investors to research the information and make intelligent investment decisions on their own.” Fair enough. At the same time, investors don't have to buy what Wall Street is selling. So the burden is equally on Wall Street to show honestly that what it's offering is worth buying. Otherwise, I'd say the intelligent investment decision is a bank CD.

Restless Voices

*Investor advocates discussed regulatory reform at the SEC's recent Investor Summit**

“What [investors] don't want is 38 pages of legalese with the nugget that we really need to understand buried somewhere.”

—Patricia Houlihan, president
Houlihan Financial Resource Group

“Investors, we have found, do not expect perfection... What they do expect, and have every right to expect, is a fair, non-conflicted, and consistent scheme of weighing the investment risk they are about to take on.”

—James Parkel, president, AARP

“The job [of reform] is not getting done... On issue after issue, the ball is being dropped.”

—Damon Silvers,
associate general counsel, AFL-CIO

*A full replay may be heard at
<http://www.connectlive.com/events/secsummits/>

Data: Securities & Exchange Commission, BusinessWeek

BusinessWeek online

For more on the Investor Summit, go to
www.businessweek.com/investor/ and click on “Column”



How do you get daily updates
on your business health?

Help employees set
well-defined objectives?

And respond quickly to
changing market conditions?

SAS® is all you need to know.

Only SAS provides you with a total enterprise view for aligning HR, finance and other business units to meet strategic goals. So you can keep stakeholders happy, employees productive and competitors on the defensive. To find out how leading companies are reaping the rewards of SAS enterprise intelligence software, call toll free 1 866 270 5722 or visit www.sas.com/enterprise

The Power to Know™



Not all summer blockbusters come from Hollywood.

Soon to be released: our summer double issue – Ideas That Make a Difference.

On sale for two weeks, it's brimming with visionary thinking that's sure to have an impact on those who shape the course of business. To reach them in print or through

a multi-platform package, contact: New York—Geoff Dodge, 212-512-4611;

London—Paul Maraviglia, 44-20-7330-9051; Singapore—Alan Lammin, 65-530-6400.

Issue date: August 19/26. On sale: August 9. Ad close: July 22. www.businessweek.com

See inside

- MAGAZINE
- ONLINE
- TELEVISION
- EVENTS



N OIL PATCH DARLING



ARA
NOVANESIAN

erson-UTI
t to expand
atural gas.
Sight devices
making waves
trasound.
electronics
ons clear,
stica may shine

Shares of Patterson-UTI Energy (PTEN) have tripled, to 32, since their September lows. That may only be the beginning of the story. Sure, the fate of the Snyder (Tex.) company, which supplies drilling rigs mostly for natural gas, is pegged to an economic recovery. But even if natural gas prices don't budge from here, the company's profits could balloon.

Analyst James Wicklund of Banc of America Securities (neither he nor it has a stake) says Patterson-UTI's fortunes "are as simple as sitting back and watching the drilling cycle run." The company owns 324 rigs, making it the No. 2 land-based fleet in North America. In the drilling boom, which peaked in July, 2001, clients paid up to \$15,000 a day for crew and equipment. But in the downturn, rates plummeted to \$6,500—breakeven.

Lately, day rates have crept back to \$8,000 and are moving up, says Wicklund. Also, a dwindling supply of natural gas has caused prices to double since January, to \$3.50 per 1,000 cubic feet (mcf)—still way off highs of \$10/mcf set in 2000. In highly leveraged rig-leasing, operating margins increase geometrically as the number of rigs and lease rates rise—money that goes right to Patterson-UTI's pocket. It's not showing through on earnings yet: Net income fell to 5¢ a share in the quarter ended Mar. 31, an 89% year-over-year decline. For 2002, Wicklund sees earnings of 24¢, jumping to \$1.51 in 2003. Earnings could hit \$7 a share in 24 months if day rates hit \$15,000 again, he says.

Allen Brooks of CIBC World Markets, which managed or co-managed two equity offerings in late 2000, reiterated a "strong buy" rating on May 3. He raised his earnings estimates to 31¢ a share for this year, above Wall Street's consensus of 22¢. He sees profits of \$1.73 per share next year, vs. a market consensus of \$1.44.

FOR SONOSIGHT, A STRONG PULSE



SonoSight (SONO) is going places in miniaturized ultrasound. Its handheld digital devices are used in cardiology and for vascular imaging. At about \$25,000 a pop, its main product, weighing just 6 pounds, is a big improvement on \$100,000, 300-pound behemoths. Spun off from ATL Ultrasound (now part of Philips), SonoSight has installed 7,000 systems worldwide since its September, 1999, launch.

Like other medical tech companies,

SonoSight has seen its stock crushed. From a January high of 28, it has fallen to 16. One reason: new rivalry. General Electric is rumored to have its own ultrasound sensor. "You don't discount competition from GE," says analyst Bruce Jacobs of Deutsche Bank. "But it validates the market opportunity." Jacobs says that while GE's technology is still a mystery, he believes SonoSight will "sustain its leadership position." His 12-month target is \$30.

Charles Olsziewski of UBS Warburg rates SonoSight a "strong buy" and has a target of \$26. UBS Warburg was lead underwriter of a secondary offering—at \$17.25 a share—which raised \$42.5 million earlier this month. CEO Kevin Goodwin says the cash will help launch new products and an overseas sales force. With the nod of regulators, two new models will appear in 12 months, including a 3-pound iLook system. In office physical exams, doctors can use the iLook like a souped-up stethoscope for on-the-spot diagnoses. SonoSight revenues hit \$12.8 million in the first quarter of 2002, up 57% from 2001. Olsziewski sees fourth-quarter profits of 11¢ a share, and 40¢ in 2003.

BRIGHTER SKIES AHEAD AT CELESTICA?

There's no sign the tech storm will pass anytime soon. That's grim news for electronics outfits such as Celestica (CLS), Flextronics International (FLEX), and Solectron (SLR): Not until the computer, cell-phone, and telecom makers rev up production and outsourcing will they see a rebound. Right now, high tech farms out only 15% of its manufacturing. Bear Stearns reckons \$26 billion from such work could be generated in the next year if things pick up.

Outsourcers have been restructuring, says Todd Coupland of CIBC World Markets, and a small uptick in orders could boost their profits. "It's going to be in small steps," he thinks. If investors are willing to take a giant leap, Coupland's choice is Celestica, run by former IBM execs. First-quarter earnings were 26¢ a share, down from 31¢ last year, and Coupland, who owns about 5,000 shares, dropped his yearly forecast from \$1.45 to \$1.20. But his price target of 56 is bullish, with the stock at 31. Analyst Chris Whitmore of Deutsche Bank has a similar take. "Celestica is in one of the best positions for the long term."

Gene G. Marcial is on vacation.



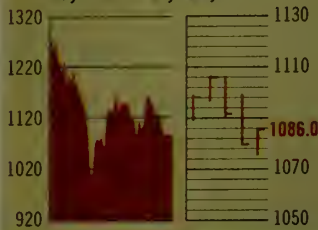
BusinessWeek online

Read Gene Marcial's Inside Wall Street Online column Tuesday afternoons at www.businessweek.com/today.htm. And see him Fridays at 1:30 p.m. EST on CNNfn's *The Money Gang*.

Stocks

S&P 500

May Nov. May May 16-22



COMMENTARY

After two consecutive losing sessions, resilient U.S. investors shook off persistent earnings woes, as well as concerns about the Middle East, and sent the stock market back into the plus column on May 22. It wasn't enough to pull the market out of the doldrums for the week: The Dow, the S&P 500, and the Nasdaq fell 0.8%, 0.5%, and 3.0%, respectively. Trading volume was light.

Data: Bloomberg Financial Markets
Bridge Information Systems, Inc.

U.S. MARKETS

	May 22	Week	Year to date	Last 12 months
S&P 500	1086.0	-0.5	-5.4	-17.1
Dow Jones Industrials	10,157.9	-0.8	1.4	-9.8
Nasdaq Composite	1673.5	-3.0	-14.2	-27.7
S&P MidCap 400	531.6	-2.4	4.6	-2.6
S&P SmallCap 600	246.8	-4.0	6.3	4.2
Wilshire 5000	10,261.3	-1.0	-4.2	-15.4

SECTORS

	May 22	Week	Year to date	Last 12 months
BusinessWeek 50*	678.1	-0.1	-7.1	-27.0
BusinessWeek Info Tech 100**	347.1	-1.1	-17.2	-35.3
S&P/BARRA Growth	547.4	-0.5	-7.9	-16.3
S&P/BARRA Value	535.9	-0.4	-2.9	-18.3
S&P Energy	221.5	1.0	4.8	-11.7
S&P Financials	357.7	-1.0	0.7	-8.6
S&P REIT	98.0	-1.2	4.9	9.5
S&P Transportation	196.8	-3.3	-0.1	-8.7
S&P Utilities	139.2	1.7	-4.6	-33.3
GSTI Internet	83.7	-4.2	-20.3	-46.3
PSE Technology	599.3	-3.2	-12.8	-27.3

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Internet Software	15.0	63.1
Gold Mining	13.9	46.3
Networking Equipment	11.5	44.5
Forest Products	10.0	39.0
Housewares & Specialties	8.6	34.1

EQUITY FUND CATEGORIES

4-week total return	%	52-week total return	%
Leaders		Leaders	
Precious Metals	19.1	Precious Metals	67.3
Japan	5.6	Real Estate	15.3
Diversified Pacific/Asia	1.9	Small-cap Value	9.2
Foreign	1.3	Pacific/Asia ex-Japan	7.4
Laggards		Laggards	
Health	-7.3	Communications	-43.7
Utilities	-5.5	Technology	-40.9
Technology	-5.4	Utilities	-26.2
Small-cap Growth	-4.1	Large-cap Growth	-23.7

EQUITY FUNDS

4-week total return	%	52-week total return	%
Leaders		Leaders	
U.S. Glob. Wld. Prec. Minls.	28.6	First Eagle SoGen Gold	97.9
U.S. Global Investors Gold	25.2	Van Eck Intl. Invs. Gold A	90.7
ING Precious Metals A	22.4	U.S. Global Investors Gold	88.2
Van Eck Intl. Invs. Gold A	22.1	U.S. Glob. Wld. Prec. Minls.	87.3
Laggards		Laggards	
Amerindo Hlth. & Biotech. D	-22.1	ProFunds UltraOTC Inv.	-70.3
Frontier Equity	-21.1	Black Oak Emerging Tech.	-68.0
World GenomicsFund.com	-20.8	Van Wagoner Post Venture	-65.6
Reg. Opport. Oh.-Ind.-Ky. B	-19.9	Van Wagoner Technology	-64.8

Data: Standard & Poor's

GLOBAL MARKETS

	May 22	Week
S&P Euro Plus (U.S. Dollar)	1061.4	-1.1
London (FT-SE 100)	5151.9	-2.0
Paris (CAC 40)	4326.3	-3.2
Frankfurt (DAX)	4919.5	-3.0
Tokyo (NIKKEI 225)	11,962.0	2.7
Hong Kong (Hang Seng)	11,795.2	0.9
Toronto (TSE 300)	7638.4	-1.0
Mexico City (IPC)	7385.2	-0.2

FUNDAMENTALS

	May 21	Wk.
S&P 500 Dividend Yield	1.46%	1
S&P 500 P/E Ratio (Trailing 12 mos.)	44.4	4
S&P 500 P/E Ratio (Next 12 mos.)*	19.3	1
First Call Earnings Revision*	-0.47%	-0

*First Call Corp.

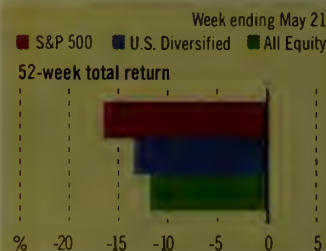
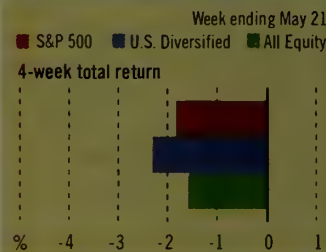
TECHNICAL INDICATORS

	May 21	Wk.
S&P 500 200-day average	1119.9	1122
Stocks above 200-day average	69.0%	73
Options: Put/call ratio	0.69	0
Insiders: Vickers NYSE Sell/buy ratio	4.07	4

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Multi-Utilities	-22.9	Multi-Utilities
Constr. & Engineering	-16.4	Computer Stge. &
Computer Stge. & Perphs.	-14.9	Wireless Service
Application Software	-14.1	Telecomms. Equi
Biotechnology	-12.1	Instrumentation

Mutual Funds



Data: Standard & Poor's

Interest Rates

KEY RATES

	May 22	Week a
MONEY MARKET FUNDS		
90-DAY TREASURY BILLS	1.52%	1.52%
2-YEAR TREASURY NOTES	3.18	3.32
10-YEAR TREASURY NOTES	5.11	5.25
30-YEAR TREASURY BONDS	5.64	5.73
30-YEAR FIXED MORTGAGE†	6.78	6.90

†BancQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt bonds, assuming a 30% federal tax rate.

	10-yr. bond
GENERAL OBLIGATIONS	4.39%
TAXABLE EQUIVALENT	6.27
INSURED REVENUE BONDS	4.42
TAXABLE EQUIVALENT	6.31

THE WEEK AHEAD

PERSONAL INCOME Tuesday, May 28, 8:30 a.m. EDT ► Personal income is forecast to have risen 0.3% during the month of April, after a 0.4% rise in March. That's based on the median forecast of economists surveyed by Standard & Poor's MMS, a unit of The McGraw-Hill Companies. April consumer expenditures probably rose a robust 0.7%, following a 0.4% increase in March. Continued strength in real wage growth and early signs of an improving labor market have enabled consumer demand to remain strong.

CONSUMER CONFIDENCE Tuesday, May 28, 10 a.m. EDT ► The Conference Board's May confidence index probably inched higher, to 109, after falling to 108.8 in April. Consumers' view of current conditions dragged last month's overall index lower, due to worries about employment prospects and higher oil prices. As the recovery takes hold, confidence should improve.

EXISTING HOME SALES Tuesday, May 28, 10 a.m. EDT ► Sales of existing homes in

April are expected to have slipped to an annual rate of 5.35 million from 5.4 million homes in March. Home sales should soften from their recent pace after a mild winter and low interest rates spurred sales during the first quarter.

FACTORY INVENTORIES Friday, May 25, 10 a.m. EDT ► Manufacturing inventories probably declined 0.3% in April after a 0.6% slide in March. Inventories continued to fall faster than anticipated because of strong consumer demand.

BusinessWeek Fifty

Nov.

May

Weekly

Daily: May 16-22

710

695

678.1

665

650

1% for the week. A big loser was slot-machine maker International Game Technology, which investors questioned future growth. WellPoint Health Networks, an otherwise strong performer this week, saw its stock price fall as state and federal prosecutors widened their investigation into drug prices. On the positive side, the index soared 19.1% on optimism that its accounting is cleaner than had been believed.

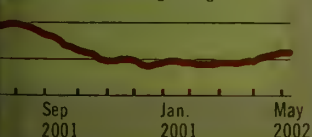
COMPANY PERFORMANCE

Company	% change		Rank	Company	% change	
	Week	Since 3/1/02			Week	Since 3/1/02
Johnson & Johnson	2.9	1.8	26	Tenet Healthcare	-1.1	22.2
3M	-1.9	3.4	27	Household International	-4.7	2.6
Boeing	-1.6	-12.4	28	WellPoint Health Networks	-4.4	11.9
Wells Fargo	-3.0	4.5	29	Washington Mutual	-0.8	18.0
United States Steel	2.8	4.6	30	Duke Energy	-3.3	-0.8
General Motors	-2.7	0.9	31	Kohl's	4.0	12.3
Wal-Mart	-0.3	1.9	32	Bed Bath & Beyond	-3.7	3.6
Target	6.7	3.8	33	Cardinal Health	0.3	2.3
Home Depot	-2.2	4.0	34	Centex	-2.2	-9.9
Deere	2.6	14.9	35	American Electric Power	0.5	2.8
Bank of America	-2.3	19.1	36	Golden West Financial	-1.2	8.8
Wells Fargo	-1.5	9.6	37	Stryker	1.3	-12.5
Procter & Gamble	-5.9	-11.5	38	Harley-Davidson	-2.0	4.6
Exxon	0.1	-8.4	39	PepsiCo	-1.1	2.2
Merck	10.4	-63.9	40	Merck	1.1	-6.2
Amgen	1.9	11.9	41	Apache	0.5	7.4
ConocoPhillips	0.4	2.4	42	Amerada Hess	3.5	21.6
Pharmacia	-4.5	-6.5	43	KB Home	-3.5	14.7
First Data	-1.1	-9.0	44	First Data	-2.0	-1.2
Tyco International	6.1	27.2	45	Tyco International	19.1	-20.5
Petroleum	1.9	12.3	46	International Game Technology	-4.9	-9.7
Capital One Financial	-0.1	-5.9	47	Capital One Financial	-3.3	26.5
Electronic Data Systems	-1.3	0.0	48	Electronic Data Systems	-2.7	-9.0
Nabors Industries	1.4	4.0	49	Nabors Industries	-1.1	22.2
Xcel Energy	-1.7	-0.6	50	Xcel Energy	7.9	-4.4

Production Index

Change from last week: -0.1%
Change from last year: -7.0%

L OUTPUT May 11=161.8 1992=100
Index is a 4-week moving average



The index declined for the first time since before calculation of the four-week moving index inched lower, to 161.2, from last week, the seasonally adjusted output index. The biggest drop, with truck assembly and oil refining also posting moderate declines. Lumber, while coal, rail-freight traffic, and production also improved.

For more information on the index components is at www.businessweek.com. Copyright 2002 by The McGraw-Hill Companies.

Online Resources

BW 50 Track the index and the companies in it all day long. Plus: our exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time market coverage and investment tools in partnership with Standard & Poor's.

MUTUAL FUNDS Search for funds, view BW ratings, and read Q&A's with fund managers.

COLUMNS Hot stocks, takeover plays, and the latest strategies for managing your money.

BusinessWeek online

For more investment data and the components of the production index, visit www.businessweek.com.

Spend
some
quality
time
with
your
money.



See inside

On-air weekend mornings.
Check your local listings.

www.businessweektv.com

Bring it to you in just 30 seconds

savin
WE'VE GOT WHAT IT TAKES TO WIN YOU OVER™

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Addis Group 34
Adelphia Communications (ADLAC) 40
Adventis (AVE) 82
Aegis Value Fund (AVALX) 86
Alcatel (ALA) 48
Alliance Capital Management (AC) 40
American Express (AXP) 64, 88
Anheuser-Busch (BUD) 70
AOL Time Warner (AOL) 14, 46, 58, 70
Apaloosa Management 40
Apex Digital 14
Apple Computer (AAPL) 89
Arizona Diamondbacks 60
Armada 56
Arthur Andersen 46, 74, 102
AstraZeneca (AZN) 78
AT&T (T) 18, 40, 94
Auto One Acceptance (GSB) 46
AXA (AXA) 40

B

Banana Republic (GPS) 46
Banc of America Securities (BAC) 37, 97
Bank One (ONE) 92
Baron Funds 64
Baskin-Robbins 63
Bear Stearns (BSC) 97
Beechmont Bus Service 36
Boeing (BA) 82
Boston Partners Small Cap Value Fund 86
BP (BP) 62
Bristol-Myers Squibb (BMJ) 46
Broadwing (BRW) 40
Burger King (DEO) 63
Butterfly.net 82

C

Cal Fed Investments (GSB) 46
California Federal Bank (GSB) 46
Celestica (CLS) 97
Cell Genesys (CEGE) 77

Cereon Genomics (MON) 82

Chancellor-Beacon Academies 44
Charles Schwab (SCH) 64, 70, 72
ChevronTexaco (CVX) 62
Chicago Bulls 60
Chicago Investment Analytics (SCH) 70
CIBC World Markets 97
Cingular 63
Citigroup (C) 46, 64, 70, 88, 92
CKE Restaurants (CKR) 63
Clear Channel Communications (CCU) 58
Coca-Cola (KO) 18, 80
Coinstar (CSTR) 63
Coldwell Banker Real Estate (CD) 78
Comcast (CMCSK) 18, 94
Commercial Metals (CMC) 70
Compaq Computer (HPQ) 82
Condé Nast Publications 36
Corcoran Group 16

D

DaimlerChrysler (DCX) 40
DataPlay 24
Dell Computer (DELL) 46
Deloitte & Touche 74
Deutsche Bank (DB) 97
Deutsche Telekom (DT) 48
Doubleday 22
DreamWorks 63
DuPont (DD) 22

E

Edison Schools (EDS) 44
Enron (ENRNQ) 14, 36, 40, 47, 62, 74, 102
Ericsson (ERICY) 48
Ernst & Young 74
Esaya 46
Evergreen Media 58
Evolution Technologies 24

F

FedEx (FDX) 89

Fidelity Investments 40
First Nationwide Mortgage (GSB) 46
Flextronics International (FLEX) 97
Ford (F) 46, 82
Fox (FOX) 42
France Télécom (FTE) 48

G

Gap (GPS) 46, 56
Gateway (GTW) 34, 46
Gemstar (GMST) 42
Genentech (DNA) 78
General Electric (GE) 97
General Motors (GM) 22, 34, 70, 82
GlaxoSmithKline (GSK) 82
Global Crossing (GBLXR) 18, 47
Golden State Bancorp (GSB) 46
Goldman Sachs (GS) 43, 48, 64
Guidant (GDT) 46

H

Harley-Davidson (HDI) 48
Hershey Foods (HSY) 63
Hewlett-Packard (HPQ) 63, 82
Hitachi (HIT) 14
Home Depot (HD) 56
Huron Consulting 46

I

IBM (IBM) 43, 82
ICM/Isabelle Small Cap Value Fund 86
IDC 43
ImClone (IMCL) 46
Incyte Genomics (INCY) 82
Infineon Technologies (IFX) 43

J

Jefferies (JEF) 81
Jenn-Air (MPY) 56
John Hancock Financial Services (JHF) 64
Johnson & Johnson (JNJ) 46
J.P. Morgan Chase (JPM) 37, 72, 92
JVC 14

K

Kellogg (K) 63, 70
Kmart (KM) 56
Kobin Enterprises 63
KPMG 74
Kraft Foods (KFT) 34

L

Lazard 48
Lehman Brothers (LEH) 30
Lifetime Entertainment Services 92
Lowe's (LOW) 56

M

M&M Mars 63
Mannesmann 48
Matsushita 14
Mattel (MAT) 70
McDonald's (MCD) 16
McGraw-Hill (MHP) 98
McHenry Consulting 64
MediaOne 18
Merrill Lynch (MER) 18, 64, 70, 86

Microsoft (MSFT) 46, 48
Minnesota Twins 60
Mitsubishi Electric 14
Monsanto (MON) 82
Moody's Investors Service (MCO) 34
Morgan Stanley Dean Witter (MWD) 48, 64, 78B
Morningstar 56, 86
Mosaica Education 44
Motorola (MOT) 48
Mutual Series Fund 40

N

New York Yankees 60
Newbridge Partners 64
News Corp. (NWS) 42
NFO WorldGroup 64
Nobel Schools 44
Nokia (NOK) 46, 48
Nomura Securities (NRSCY) 48
NTL (NLJ) 48
NTT (NTT) 48

O

OfficeMax (OMX) 56
Old Navy (GPS) 46
Oracle (ORCL) 14
Oracle Partners 46
Orbitz 46

Oxygen Media 92

P

Pacific Investment Management (AZ) 37
Palm (PALM) 89
Patterson-UTI Energy (PTEN) 97
PepsiCo (PEP) 63
Pfizer (PFE) 82
Pharmacia (PHA) 78
Philips Electronics (PHG) 14
Pioneer 14
Pratt & Whitney (UTX) 82
PricewaterhouseCoopers 74
Prudential Financial (PRU) 64, 72
Psion 48

Q

Qwest Communications International (Q) 40

R

Redback Networks (RBAK) 46
Reebok International (RBK) 63
Royal Philips Electronics (PHG) 48, 97
Ryerson Tull (RT) 34

S

Salomon Smith Barney (C) 64
Samsung Electronics 43
Sanderson Farms (SAFM) 70
SAP (SAP) 48
Scientific-Atlanta (SFA) 42
Sears Roebuck (S) 56
Siemens (SI) 43
Sollectron (SLR) 97
SonoSight (SONO) 97
Sony (SNE) 14, 24, 48, 63
Southern (SO) 62
Sprint (FON) 40
Standard & Poor's (MHP) 30, 34, 40, 56, 98
StarMine 72
Starwoods Hotels & Resorts Worldwide (HOT) 34
Sugen (PHA) 78

Sun Microsystems 82

Sutter Home Win
Swiss Re 36

T

TCW Group 40
Telewest Commu (TWSTY) 40
Telik (TELK) 77
Tenet Healthcare
Therion Biologics
Third Avenue Fur
Thomas Weisel P
Toshiba 14, 43
Tricon Global Res (YUM) 63
T. Rowe Price Hea
Sciences Fund 7
T. Rowe Price Sm
Value Fund 86
Turner Investmen
86

U

UBS/PaineWebber 64
UBS Warburg (UB
Undiscovered Ma
Unilever 34

V

Value Line (VALU)
Venture Reporter 1
Vivendi Universal
Vodafone (VOD) 48

W

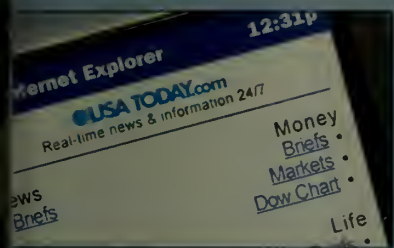
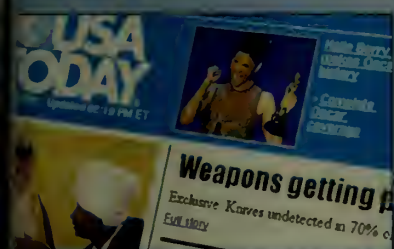
Wal-Mart Stores (V
Walter Industries
Warner Music (AOL
Wasatch Small Ca
Fund (WMCVX) 82
Wellington Financ
Wells Fargo (WFC)
William Blair Value
Discovery Fund (V
86
Winstar Holdings (P
WorldCom (WCOM)
40

X

Xerox (XRX) 74

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January, August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. rate \$54.95/year; Canada: CDN \$69/year. Periodicals postage paid at New York, N.Y., and at additional offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales No. 246484. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO 80503.

WAKE UP



economy of words.
wealth of information.
usatoday.com

KEEP UP

More than a newspaper, USA TODAY is
your information network.

Start your day with USA TODAY for the
latest news from here and abroad.

Keep up with the latest news all day long
with USATODAY.com. With news, scores,
stocks and headlines updated 24/7,
USATODAY.com makes it easy to know
what's happening as soon as it happens.

Prefer a wireless update?

Get USA TODAY headlines on your PDA.

In print, online and wireless, wake up
and keep up with all the news that's
important to you with the USA TODAY
Information Network.



ACCOUNTING: STRONGER REFORMS, PLEASE

Perhaps the only benefit of a major scandal is that it creates pressure for reforms. Politicians who would otherwise listen to special interests are forced by public pressure to make long-needed changes. Often, the legislative and regulatory changes that follow a scandal can help build a strong foundation for economic growth.

If you hoped that the Enron/Andersen scandal would provide an opportunity for just those sort of farsighted regulatory improvements, start worrying. There are signs that the Bush Administration, under pressure from the accounting lobby and business groups such as the U.S. Chamber of Commerce, is willing to support only mild changes in the current system. And there's a danger that Congress will acquiesce. The House of Representatives has already passed a very watered-down bill.

That's wrong. Halfhearted reform is bad for the public, bad for the economy, and even bad for the accounting industry, which needs to reestablish its credibility. Instead, we think the best bet for strong accounting and financial reform is the legislation proposed by Senator Paul S. Sarbanes (D-Md.), chairman of the Senate Banking Committee.

Sarbanes' draft legislation—which is opposed by Senator Phil Gramm (R-Tex.), the ranking GOP member of the Bank-

ing Committee, and the Bush Administration—would a strong private-sector board to oversee public-company accounting. It would severely limit consulting services; accounting firms can offer the companies they audit. At the least, the bill would require CEOs and CFOs to sign off on the company's audit reports and forfeit a year's worth of bonus, incentive-based pay, and profits on stock sales if the company has to materially restate its earnings. That would be the aggravating sight of CEOs claiming they had no knowledge of what kind of wrongdoing their company was engaged in.

Equally important, the Sarbanes bill would authorize additional money for the Securities & Exchange Commission and give the agency to hire at least twice as many professional auditors as the Bush Administration is willing to fund. These additional resources are essential for the SEC to do its regulatory job. According to a report from the General Accounting Office, the SEC's workload increased by 80% in the 1990s, but its budget rose only 20%. In 2001, for example, the SEC reviewed only 16% of all annual reports—way below the desirable level.

No business or profession likes closer oversight. But the right balance between markets and regulation is essential for a well-functioning economy. Reform is never easy, but history suggests that it's essential.

THE THREAT OF PROTECTIONISM

With few exceptions, this magazine has long favored free trade as a win-win proposition for both the U.S. and the world. Part of what triggered the boom of the 1990s was U.S. approval of the NAFTA and GATT free-trade pacts early in the decade. While some individuals and companies have suffered from a more open economy, there is no doubt that free trade has been good for the U.S. overall. Growth soared in the '90s, unemployment plunged, and inflation was mild, held down in part by low-priced imports. Meanwhile, the U.S. served as the world's growth engine.

By contrast, the Bush Administration and the current Congress seem intent on turning trade into a lose-lose game (page 38). The Administration's approval of new tariffs on imported steel and Canadian lumber may attract votes in the Midwestern industrial states and in the Northwest, but these decisions have angered America's largest trading partners. Moreover, the steel tariffs have forced prices higher for domestic users. Since the levies were approved in early March, steel prices have taken their biggest jump since 1995.

Even more troubling is the farm bill, which recently received congressional approval—with bipartisan support—and a quick signature from the President. The bill would boost agricultural subsidies by \$83 billion over the next 10 years, mainly aiding the largest farmers and big agricultural companies. More important, the subsidies make it much harder for

farmers in developing countries to compete with the U.S.

Taken together, the new tariffs and the farm bill send a strong signal to other countries that the U.S. is committed to free trade only when it's expedient. That will make it harder to get international agreement on tough trade issues in the future.

In part, President George W. Bush has been making concessions to individual industries in an effort to build support for the "fast-track" trade bill now before Congress. Rather than engaging in protectionist acts, Bush needs to send a pure and clear signal that the U.S. supports free trade on its merits—not sometime in the future, but now. That means resisting any further protectionist demands from lawmakers. It could even mean unilaterally reducing trade barriers rather than erecting new ones. Such moves would benefit U.S. consumers while giving needed boost to struggling economies overseas.

Unqualified support of free trade makes for sound policy as well as sound economics at a time when the U.S. is trying to establish a consensus in favor of fighting global terrorism. The U.S. is in a strong enough position economically that it can afford to make these gestures. If the richest country in the world feels that it has to protect its industries by subsidizing its farmers, it should be no surprise if the rest of the globe follows.

Their parents both have

great jobs.

Same cars.

Same vacations.

So why will one family be

**paying for
college,**

while the other is

praying for a scholarship?



The difference is a Northwestern Mutual Financial Representative, offering expert guidance in planning for your children's educations, and a network of specialists to help you reach all your financial goals.

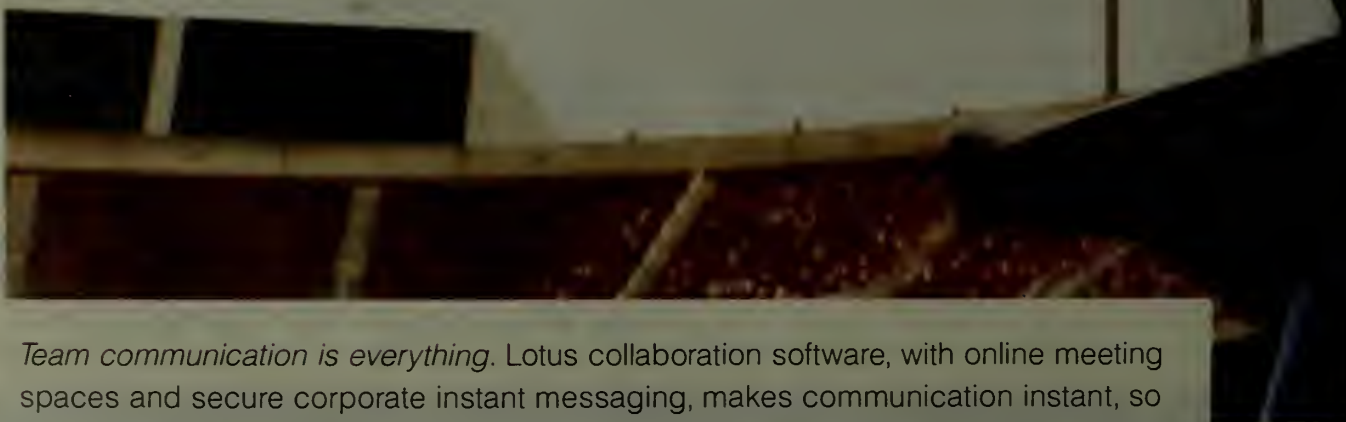


Northwestern Mutual
FINANCIAL NETWORK™

Are you there yet?

Lotus. software

WINNING TAKES MORE THAN TEAM CHEMISTRY. IT TAKES TEAM SOFTWARE



Team communication is everything. Lotus collaboration software, with online meeting spaces and secure corporate instant messaging, makes communication instant, so every project goes down in the "win" column. Lotus. Part of our winning software team, along with DB2®, Tivoli® and WebSphere®. Check out our Webcast at ibm.com/lotus/team



BusinessWeek

02

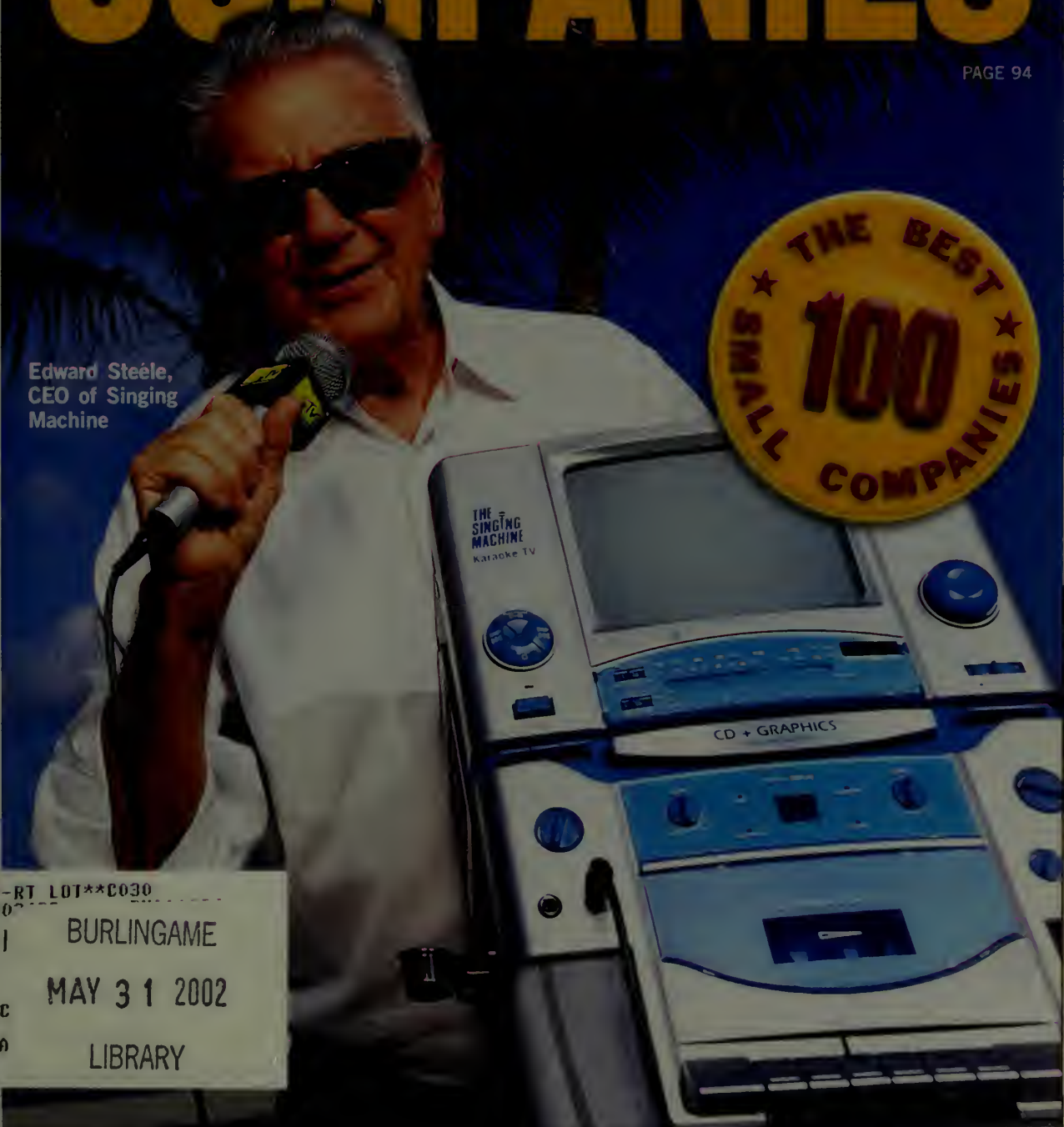
www.businessweek.com

ELAND
RITY
T
OST.
ILL PAY
STING
ORS
UGH
NOMY
CTIVITY
SO WHERE
ORPORATE
TS?
EA
T'S
ING A
FOR ASIA

HOT GROWTH COMPANIES

PAGE 94

Edward Ste le,
CEO of Singing
Machine



BXBBGDD ****CAR-RT LOT**C030
LBRLP000097 1#30
BURLINGAME
MAY 31 2002
BURLINGAME PUBLIC
80 PRIMROSE RD
BURLINGAME CA
LIBRARY

HEIGHT ADJUSTMENT?



ATTITUDE ADJUSTMENT?

DATE

Audi



ix was the dream. To build a hybrid luxury vehicle that was equally gifted gliding down highways as climbing over
ks. To make it, we had to think outside the box. And the result? The allroad quattro with a 250 hp biturbo engine.
aturing a unique 4-level pneumatic suspension system that increases and decreases the car's ground clearance.
d an utterly unique tire—created because there was no tire in the world capable of the heightened performance
e demanded for both on and off-road driving. Two more examples that underline our approach toward building cars.
Never quit. Never do the expected. Never rest on your laurels. Never think great is good enough. NEVER FOLLOW.™

There's never been a
better time for Charles Schwab.TM

The Schwab Way

Now more than ever, individual investors deserve a level playing field.

From day one, over 25 years ago, the Investment Consultants of Charles Schwab & Co. have been driven by what's in the best interest of individual investors, not by individual broker commissions or conflicts of interest. That is our core, individual investors. They are the central purpose of what we do. Not investment banking, individuals.

And as these individual investors grew, we grew with them. We made a substantial investment in fact-based knowledge — both in the market and in our own Investment Consultants' expertise.

We've grown from helping people invest to becoming their trusted, expert consultant on how they should best manage their portfolio.

And now with Schwab Private Client, you'll develop a one-on-one brokerage relationship with a consultant who'll offer the expert advice you've always wanted and the attention you deserve as you manage your portfolio.

And if you're at the point in your life where you want to turn some or all of your investments over to an experienced advisor, there's the Schwab Advisor Network™, a hand-selected group of professional, independent advisors.

At Schwab, we may have evolved but we've always remained true to our original principles.

THE PRINCIPLE OF THE INDIVIDUAL INVESTOR

From day one, the individual investor



has been at the center of what we do. Every investor is important to us. We're not focused on investment banking.

We represent you, the individual investor.

THE PRINCIPLE OF FACTS, NOT HYPE

We give advice based on facts. We do not



give so-called "hot stock tips." Research and facts are the foundation of our advice. And now with our Schwab Center for

Investment Research and Schwab Equity Ratings™, we analyze and rate more U.S. stocks for the individual investor than any other major brokerage firm.

THE PRINCIPLE OF SELL AS WELL AS BUY

Last year according to *First Call*, less than



three percent of analysts' recommendations in the marketplace were a "sell." And at Charles Schwab, we don't believe that's

the way it should be. With our Schwab Equity Ratings, we analyze stocks based on quantitative facts and give each one a simple A, B, C, D or F rating. And our research is designed to give just as many F's as we do A's. So now there's a system that helps you decide what to sell as well as what to buy.

THE PRINCIPLE OF ADVICE NOT DRIVEN BY COMMISSION

Individual broker commissions can



undermine relationships. That may bias the advice you're getting. Our Investment Consultants' compensation is based on

their service to you and assets at Schwab, not commissions. It always has been. And always will be.

THE PRINCIPLE OF OBJECTIVITY

At Schwab, we're not focused on investment banking. For example,



we make IPOs available but we don't receive any compensation for their distribution. To us, it's a potential conflict of

interest. We always strive to avoid conflicts of interest in everything we do. This is at the heart of our values.



To find out more about Charles Schwab's full range of investment services, call 1-866-751-3264, and you can also receive our complimentary brochure.

charles SCHWAB

Call

1-866-751-3264

Click

schwab.com

Visit

400 locations nationwide

*For companies with U.S. ticker symbols. Schwab Equity Ratings are not currently available to all clients. Fees for additional services may apply. ©2002 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE (0502-8401). ADS23342SPD.



Sun ONE
Portal Server

Sun ONE
Messaging Server

Sun ONE
Calendar Server

The fast road to
providing prepackaged
and custom-developed
services.

On the road to Web services,
**your portal is
either giving you
customers what
they want,
or you're gone.**



Sun[™] ONE

Open Net Environment

Reports from the road: American Hospital Association.

The American Hospital Association is implementing the Sun ONE Portal Server to enable an interactive Web site that will provide information and resources to their 5,000 member hospitals across the U.S. and the entire healthcare field.

Sun's associates for the ride.

Sun teams with some of the best systems integrators in the business providing the knowledge and experience you need to deliver personalized services with the Sun ONE Portal Server today: Cap Gemini Ernst & Young, EDS, KPMG Consulting, Inc., PricewaterhouseCoopers and Science Applications International Corporation.

Get 20% off the
Sun ONE Portal Server now.
sun.com/portalloffer
Offer expires August 20, 2002.

Deliver the personalized services and content that your customers, employees and partners need with Sun[™] ONE Portal Server.

By delivering Web services through a single portal, you can make sure your customers, employees and partners are as productive as possible. Sun[™] ONE Portal Server is designed to let users securely access business-critical information and

services through one personalized point of entry, no matter what device they're on. And because Sun ONE Portal Server is highly scalable, you can continue to seamlessly evolve your services as your business grows.



XEROX

Dillard's department stores found a real bargain in Xerox work processes and printing needs, saving

Learn more: www.xerox.com/learn For a sales rep: 1-800-ASK-XEROX ext. 1

© 2002 XEROX CORPORATION. All rights reserved. XEROX® The Document Company® and There's a new way to look at it are trademarks of XEROX CORPORATION. Dillard's is a registered trademark of Dillard's.



Xerox assessed and streamlined their company-wide
in \$1.6 million. **There's a new way to look at it.**

THE DOCUMENT COMPANY

XEROX®

COVER STORY

THE HOT GROWTH 100

These dynamos have really been on a tear: Over the past three years, their profits are up by an annual average of 61%, and sales by 29%

page 94



BusinessWeek

JUNE 10, 2002

Cover Story

- 94 THE HOT GROWTH 100**
Many of the companies on this year's list agree: When consumers are the engine driving the economy, it pays to dote on them
- 96 WHATEVER HAPPENED TO ...?**
Following up Hot Growth 2000
- 98 STRIKING THE RIGHT CHORD**
Singing Machine is making happy music in home karaoke
- 100 ADVERSE CONDITIONS 'R' US**
The ups and downs of the family behind Columbia Sportswear
- 101 BRIGHT HORIZONS' BRIGHT IDEA**
It got an early start in quality corporate child care
- 102 TURNING RUST INTO GOLD**
Copart has raced to the top of the vehicle-salvage business
- 104 AIR METHODS GETS A LIFT**
The company is emerging as the provider of choice in air rescue
- 106 HOT GROWTH COMPANY TABLES**

News: Analysis & Commentary

- 34 AMERICA'S BIGGEST JOB**
Homeland security: What will it cost, and who will pay?

- 38 COMMENTARY: PRODUCTIVITY**
Growth could have an extra kick
- 40 THE BUGS ARE BACK**
Gold is gaining value as the dollar loses some steam
- 42 SCANDALS: A SCORECARD**
Our guide to the SEC's swelling caseload
- 44 THE STATES VS. WALL STREET**
Are they in over their heads?
- 46 WHEN THEY WON'T LET YOU SUE**
An explosion in arbitration clauses
- 48 COMMENTARY: BIOTECH**
Investors, learn to think smaller
- 50 IN BUSINESS THIS WEEK**

International Business

- 54 SOUTH KOREA: ECONOMICS**
How the country overcame disaster and became a model for Asia
- 58 A CHAT WITH KIM DAE JUNG**
South Korea's President has embraced reform
- 60 COMMENTARY: RUSSIA**
Putin got his deals, but his compatriots aren't happy
- 62 INTERNATIONAL OUTLOOK**
Why Washington can't let Kashmir spin out of control

Economic Analysis

- 26 ECONOMIC VIEWPOINT**
Barro: Terrorists aren't a
- 30 ECONOMIC TRENDS**
The impact of superstores productivity; baby boomer spending; Japan's frugal s
- 31 BUSINESS OUTLOOK**
U.S.: A turn in capital spe
France: Shoppers power th

Government

- 53 WASHINGTON OUTLOOK**
Hillary is still the Dem W
loves to hate
- 72 BUSINESS BACKS A CRITIC**
Why Corporate America i
to reelect Michigan's John

Sports Business

- 64 STRIKING OUT IN FLORIDA**
Its big-league baseball tea
be history if revenues don

Science & Technology

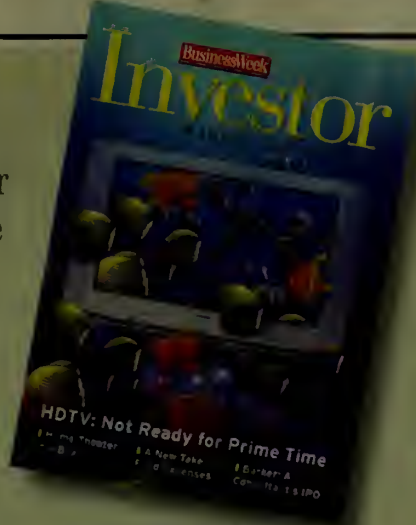
- 73 LASERS ENTER A BLUE PE**
New disk technology will
enhanced TV and movies



ITS HIT
 ers flock to
 fashioned
 page 134



EXTRA OOMPH!
 Productivity is
 doing better
 than anyone
 guessed
 page 38



SECURITY
 Huge and costly,
 the job has barely
 begun page 34

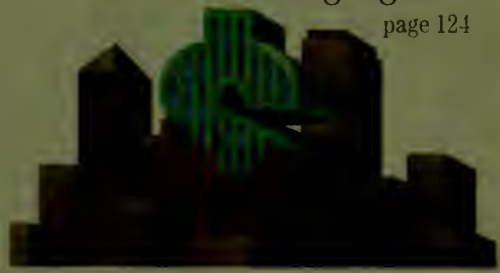


ERS GUY
 s future is
 k Dunn's
 ers page 114



REC ROOM
 An update on
 stereo and video
 gear page 142

VALUE SEARCH
 A new breed of
 investor with a
 single goal
 page 124



COOL KOREA
 Its culture of
 conformity
 and drudgery
 has been vanquished
 by prosperity page 52

DEVELOPMENTS TO WATCH
 Microwave tests instead of
 tomograms, putting light in a
 e, hot news in "spintronics"

Workplace

COMMENTARY: THE UAW
 the union stay in the game? It
 ends on organizing the South
T UP: A MICROMANAGER
 ald Gettelfinger is stepping into
 e Yokich's UAW shoes

Information Technology

OSTROM: TECHNOLOGY & YOU
 tooth wireless technology holds
 wise, but for now it's a pain
TEL: NEW CEO, OLD PROBLEMS
 k Dunn needs to make some
 way, fast, at the struggling
 adian telecom
D NEEDS AN IPO?
 tups are finding other, more
 le-free sources of financing

Entertainment

OF AGES
 Street is tuning into Salem's
 stian broadcasting

Finance

- 124 VALUE INVESTORS GAIN CLOUT**
 Investor advocates turn up the
 heat on underperforming companies
- 126 'BEING THE BAD GUY PAYS'**
 How Chapman Capital riles execs
- 128 COMMENTARY: CORPORATE GIFTS**
 Proposed reforms from the Senate
 and Nasdaq need reforming
- 130 DANGER: FALLING EQUITY**
 New accounting could make huge
 writedowns even worse
- 132 A LONDON 'FEEDING FRENZY'**
 House sellers are asking—and
 getting—fantasy prices. Can it last?

People

- 134 TRUMPING WALL STREET**
 John Bachmann's conservative style
 is drawing hordes of former Merrill
 clients to Edward Jones

BusinessWeek Investor

- 142 HDTV: HIGH-ANXIETY TELEVISION**
 The gear is pricey and confusing

- 146 COMMENTARY: HDTV**
 Keep your wallet in your pocket for
 the time being
- 147 CHEAP AND EASY HOME THEATER**
 The new smaller, simpler systems
 offer plenty of bang for the buck—
 without filling up an entire room
- 150 HOW EXPENSIVE IS YOUR FUND?**
 A new method of calculation shows
 how funds can eat your lunch
- 152 THE BARKER PORTFOLIO**
 PricewaterhouseCoopers Consult-
 ing's future IPO needs a close look
- 154 MARCIAL: INSIDE WALL STREET**

Features

- 12 UP FRONT**
- 16 READERS REPORT**
- 18 CORRECTIONS & CLARIFICATIONS**
- 20 BOOKS**
 Phillips: *Wealth and Democracy: A
 Political History of the American
 Rich*
- 22 BUSINESSWEEK BEST-SELLER LIST**
- 156 FIGURES OF THE WEEK**
- 158 INDEX TO COMPANIES**
- 160 EDITORIALS**



www.businessweek.com
 America Online Keyword: BW

BusinessWeek online

Free to Subscribe

Go to www.businessweek.com and follow the instructions to register. Be sure to have an account number that appears on your BusinessWeek mailing label.

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at

www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ TWO-FACED ON TRADE:

BW's Mike Mandel says that President Bush needs to lay off the tariffs



■ WORLD OF TROUBLE:

Protectionist policies in the U.S. and growing discord in Europe could create problems by fall, says BW's Bob Dowling



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your handheld! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the June 10, 2002, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/02_23/online.htm

Synergizer Bunny?

After years of failing to capitalize on Playboy's globally recognized name, CEO Christie Hefner may have found the formula the company has been searching for



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Street Wise: The Street still can't give investors a straight call on whether to buy, sell, or hold



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Newsmaker Q&A: Co-CEOs Charles Schwab and David Pottruck talk about how they're moving beyond the discount customer

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Venture Capital: Craig Johnson explains how VC markets are "recalibrating" after the tech wreck



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Clicks & Misses: Hotels.com makes a big promise that isn't always kept, but it's a must-visit site



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

Chat Transcript: FinAid.org's Mark Kantrowitz talks about when to look and what to look for when shopping for financial aid

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Affairs of State: If the Balkans or Bangladesh are a guide, women are better than men at closing wounds left by war, poverty, and ethnic conflict

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Career Paths: How an economist with an interest in weather turned his sights on the wine industry

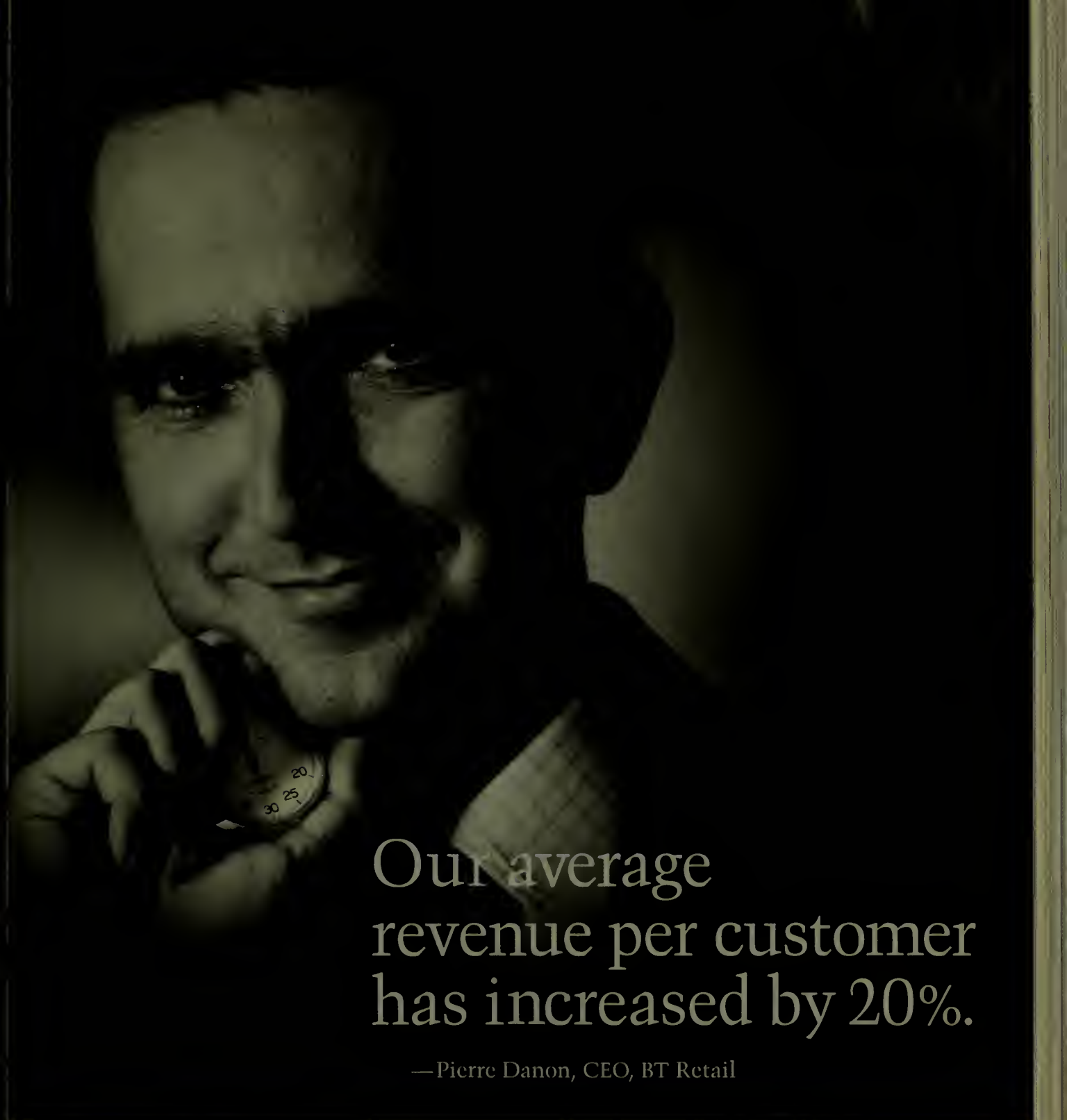


TUNE IN THIS WEEKEND FOR:

Pricing power: Who's got it?

BW's list of hot growth companies

The skinny on diet plans



Our average
revenue per customer
has increased by 20%.

—Pierre Danon, CEO, BT Retail

Pierre Danon knows the importance of time. His 21 million customers expect a quick response. By using Siebel CRM software to streamline BT's Homemover program, call-handler satisfaction rose 8%. Customer satisfaction reached 86%. Revenues per customer rose 20%. And in just one 12-week period, 5,000 new accounts were identified. Timely improvements even the busiest CEO can appreciate.

SIEBEL.

Good service is good business.

To learn more, call 1-800-307-2181 or visit siebel.com/casestudies.

Siebel Systems, Inc. All rights reserved. Siebel and the Siebel logo are trademarks of Siebel Systems, Inc., and may be registered in certain jurisdictions. Other product names, designations and logos may be the trademarks of their respective owners.

Up Front

EDITED BY SHERIDAN PRASSO



INVESTMENT BANKS

FOR SALE: TARNISHED GEM

HIGH-TECH INVESTMENT BANK Robertson Stephens raised more than \$2 billion in public offerings during the tech boom, but has lost millions ever since. And now that owner FleetBoston Financial has put it on the block, the firm looks about as frothy as a day-old latte. Industry sources say at least three foreign banks have considered buying Robertson, including HSBC and BNP Paribas. But none has

pulled the trigger—at least not at the price Fleet wants. (Early estimates of the bank's value were about \$500 million.) Other lookers, including Bear Stearns and Wells Fargo, have already passed.

Time is now running out to fetch a decent price. Not only does the firm face potentially significant liability from government probes into how it may have charged excessive commissions, but talent is walking out the door. Most recently, biotech banker Mark Simon, who has brought in 33% of Robertson's revenues so far this year, left to join a rival. "This is a rapidly declining asset," says one source. Fleet declines comment.

For now, that leaves the most likely scenario a management buyout, which could bring back former Chief Executive Michael McCaffrey as chairman, the sources say. To restore the old froth, he'll have his work cut out for him.

Linda Himelstein
and Heather Timmons

THE LIST 401(k)s BY THE NUMBERS

Employees don't follow the rules of investing...

The average employee has 10 401(k) investment options, but chooses fewer than three

15% of employees have more than 90% of their 401(k) assets in their company's stock

28% of workers in their 20s have no stock in their 401(k)s

...but they still manage to match the pros

Average annual returns, 1990 to 1998

10.77%

10.84%

Data: Watson Wyatt, Princeton Research Associates, Employee Research Institute

TALK SHOW "Everybody is pretty somber because we been doing this for almost nine months and we don't want to leave... but we did all we could here."

—Port Authority policeman Mark Winslow, at Ground Zero

PIRACY PATROL

A BIG HOLE IN SONY'S COPYRIGHT SHIELD

IT'S BACK TO THE DRAWING board for Sony Music after learning that the pen really is mightier than the sword—at least when it comes to copyright protection. On May 23, Sony announced that it would pay InterTrust Technologies \$28.5 million to license processes that could require consumers to pay extra to "unlock" music disks for downloads and MP3 burning. These could be embedded in disks to prevent unauthorized copying, a Sony exec says.

Sony turned to an outside copyright protector for help a week after technophiles trumpeted a way to foil safeguards on CDs from Sony and other labels—merely by dragging a felt-tip marker around the rim. News that the marker blocks Sony's Key2Audio copy-preventing technology spread quickly on Internet news groups and chat rooms. "They spend millions on copy protection, and a 20¢ marker

breaks it. haha," said posting on geek.com.

Sony, which has sold more than 20 million pop disks by artists such as Dion, says the marker damage CDs and played But that has done lit-



ACCOMPLICE: A marker

tle to discourage deter copiers. With every new guard, someone almost a figures out a way around. If history is any guide, could be illegally burning for months or year come.

Cliff Ed

SPORTS BIZ

NIKE'S VISION OF SOCCER GREATNESS

WHEN BRAZILIAN SOCCER superstar Ronaldo takes the field this month at the World Cup in South Korea, he'll be clad in the lightest high-performance soccer shoe ever—one-third the weight of others. Nike is betting Ronaldo will help it grab a larger share of the \$2.5 billion global soccer business and supplant the dominant player, Adidas-Salomon. Soccer, says Nike Vice-President Joaquin Hidalgo, "has become a priority for the Nike brand."

In fact, Nike's global expansion plans center around

soccer. In most countries, soccer mania rules, and basketball and baseball are viewed as quintessentially American. If Nike can penetrate the global soccer-shoe market, it can then promote spin-offs such as soccer clothes and street shoes.



VAPOR: Going after Adidas

hopes for soccer revenues of \$1 billion in five years, up from \$450 million a year.

Nike's challenge are those corner kick promising, far from ce

The \$170 ultralight, Mercurial Vapor, is costly millions to develop and market. But success will prove a fierce match between Nike and Adidas. Stanley Ho

"We told KPMG Consulting: Texans should do government business online, not in line."



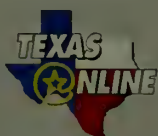
*Carolyn Purcell
Chief Information Officer, State of Texas*

*Gary Miglicco
Managing Director, Public Services, KPMG Consulting*

KPMG Consulting and the State of Texas have certainly hit a home run with the people of Texas. In 90 days, we provided our citizens with TexasOnline ... establishing our place in the market.

We've lowered the transaction cost for people to do their government business. The benefits are endless, and we've only begun to scratch the surface."

www.TexasOnline.com



"This is a very new opportunity in government providing services on the Internet. We saw this as a business problem, not a technology problem.

"So we created a solution where we not only build and manage the technology, but we manage the accounting, finance, marketing, public relations, customer service, and translation services.

"We're very proud to have just had our 5 millionth visit to TexasOnline."

YOU CAN HEAR THEIR STORY @ www.kpmgconsulting.com/results

BUSINESS SYSTEMS: STRATEGY IMPLEMENTATION RESULTS

KPMG Consulting

Up Front



FUND WATCH

STAYING PUT AT THE HELM

DURING THE BULL MARKET, IT seemed as if mutual-fund managers were about as loyal to their own funds as day traders were to their stock picks. Hedge funds and investment banks, flush with cash, lured away many of the hottest mutual-fund managers, such as PBHG's Jim McCall, who, after suing to get out of his employment agreement, went to Merrill Lynch. Others fled the industry to start hedge funds. A wave of mergers brought still more rounds of musical chairs.

As it turns out, these were just the high-profile cases. At the biggest funds, rather than bouncing from job to job, it seems fund managers mostly have been

staying put, new research from Morningstar shows. Tenures for managers at the 50 largest mutual funds have increased to an average of 8.1 years, vs. 5.7 years when last measured in 1997, before the tech boom took hold. Collectively, the 50 largest funds manage well over \$1 trillion.

Unless a fund is doing poorly, turnover can be cause for concern because a new manager can change a fund's strategy. That can leave investors with stock picks and risks they hadn't bargained for, never mind the possibility of falling returns. And long-serving managers often have excellent records. The manager with the longest stint among funds surveyed is Ed Owens, with 18 years at Vanguard Health Care and a 10-year average annual return of 21%. Next is Bill Gross, who has managed bond fund PIMCO Total Return for 15 years. He has returned about 9% annually since 1987.

Still, Morningstar hasn't established a solid link between manager tenure and performance. Overall, says Russel Kinnel, Morningstar's director of mutual fund analysis, "lousy funds stay lousy, and good funds stay good." No matter who's at the helm. *Kimberly Weisul*

DRAWN & QUARTERED



DEEP SEA TRAVEL: erate revenue pulling it for \$15,000 Its top speed almost do

7 miles per hour whales, and it can ocean creatures depths up to 100 feet. It holds the

FRONTIERS

EAT YOUR HEART OUT, JACQUES COUSTEAU

FOR ADVENTUROUS FOLK NOT ready to spend \$20 million on a vacation in space, the cost of exploring the earth's last remaining frontier—the ocean—is a comparative bargain. For \$15,000, Graham Hawkes, the world's leading designer of commercial and scientific submarines, will teach you to "fly" his sub-sea craft, the Deep Flight Aviator.

His new creation resembles the U.S. Air Force's A-10 Tank Buster jet. It does, in fact, "fly" through the water like a plane, but its upside-down wings gen-

for a solo dive in a sub-craft: to more than 3,000 feet.

This October, Hawkes will launch the Sub Sea Academy School in the Bahamas. After a three-day course, graduates will be invited to plunk down more money "crew" on five scientific expeditions a year. "We're offering people the chance to see a part of the planet that only a handful of people have ever seen before, first says Karen Hawkes, Graham's wife and business partner. Graduates can buy their own Deep Flight Aviator, for about \$20 million. More info is at deepflight.com. *Of*

THE BIG PICTURE

REINCARNATED DOT-COMS

Some dead dot-coms don't rest in peace. A handful have come to life again.

	BOO.COM	ETOYS.COM	FURNITURE.COM	WEBSHOTS.COM	WINE.COM
FIRST LIFE	NOVEMBER, 1999 High-fashion site with fancy interactive tools	OCTOBER, 1997 Online toy store	JANUARY, 1999 Site sent orders directly to factories	DECEMBER, 1999 Screensaver site, purchased by Excite	SEPTEMBER, 1999 Wine site brokered orders to retailers
SECOND LIFE	OCTOBER, 2000 Now part of fashionmall.com	OCTOBER, 2001 KBtoys' online presence	APRIL, 2002 Now relays orders to retail partner, Levitz	JANUARY, 2002 Founders bought it back, building photo editing/sharing	JULY, 2001 Still site for wine, but new owner, eVin is a licensed retailer

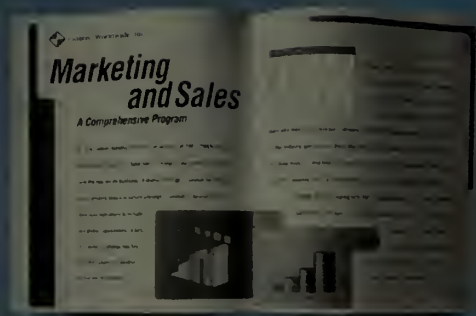
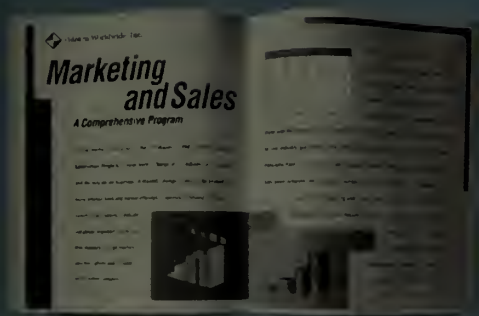
Data: BusinessWeek

Polls, surveys, and other items for consideration

in this section should be sent to upfront@businessweek.com

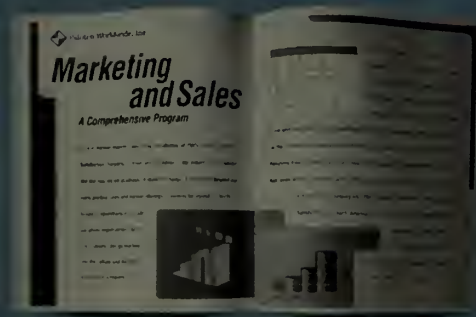
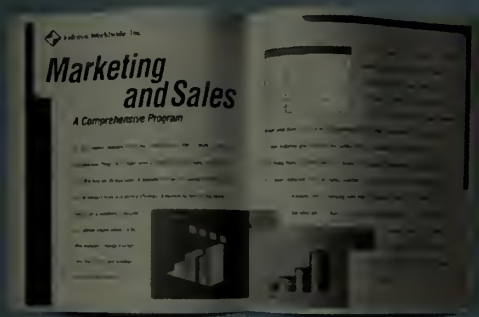
for
ageRUNNER™

Call 1-888-EZ-COLOR
or visit WWW.USA.CANON.COM



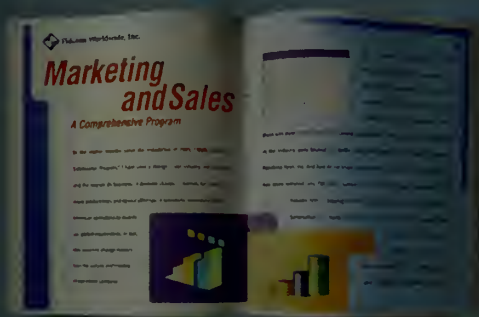
After extensive

research, we

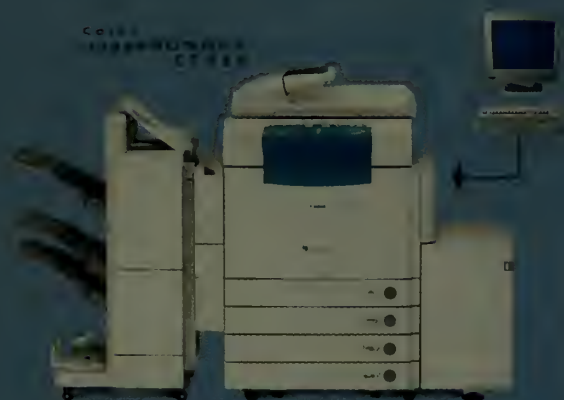


finally found

room for



improvement.



Remarkable innovation by Canon imageRUNNER. The unrivaled heritage of Canon color. Both are available in a brilliant solution. The amazing Color imageRUNNER C2040. A fully-connected, network-compatible, page-per-minute wonder. It expands your color capabilities, so you can create professional-quality, vivid documents — in full color or black-and-white — right from the desktop. At Canon, we're giving people know-how to bring office documents to a colorful new level.

Canon KNOW HOW™

© 2000 Canon U.S.A., Inc. All rights reserved. For more information on network connectivity.

EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS: Joyce Barnathan, Frank J. Comes, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Arnst, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Peter Elstrom, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Margaret Popper, William Wolman, Seymour Zucker (Sr. contributing eds.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.), Michael S. Serrill (Sr. ed.), Robin Ajello, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Dan Beckue, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khermouch, Julia Lichtblau, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: David Rocks. E-Business: Timothy J. Mullane. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Spencer E. Ante, Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. News: John Protos. People: Susan Berfield. Personal Finance: Carol Marie Cropper, Susan Scherrik, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports business)
STAFF EDITORS: Lewis Braham, Jeanette Brown, Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Tim Belknap, Aleta Davies, Doug Royalty (Sr.); Giles Blunt, Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Malka Percal, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Nigel Cruickshank, Jamie Elsis, Edith Guberez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Daunis Allen, Joe Calviello, Roger Kenry, Stephen Kenry, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Nita Le, Rich Michiel, Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper, (Asst.); Lucy Corticello, Sarah Greenberg, Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burke Hughes, Mandy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.); Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Stephen R. Lebron, Kim Maenak, Jose L. Martin, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit map mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), J. Steve Ben-Ari, Steven McCarthy, Anoop Srivastava, Craig Sturges, Mauro Vaisman
ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorff, John Johnson: Will Andrews, Heather Barry, Jamie Beauchamp, Jane Black, Joleen Colpa, Tony Cracolice, Roger Franklin, Brian Hendo, Brian Kelly, Olga Kharif, B. Kite, Matt Kopit, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Arney Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj, Eric Wahlgren, Heesun Wee
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad, Aixa Pascual. Boston: William C. Symonds (Mgr.), Faith Keenan, Geoffrey Smith. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Julie Forster, Pallavi Gogoi, Darnell Little. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), Joann Muller, David Welch. Los Angeles: Ronald Grover (Mgr.), Larry Armstrong, Christopher Palmeri (Sr. correspondents), Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Himelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C. Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Dunham, Howard Glickman, Mike McNamee (Sr. correspondents); Amy Bormus, Dan Carney, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang, Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Ballfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.), Stephen Baker, Carol Matlack, Andre Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ihlwan. Singapore: Michael Shan (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Robert Pondiscio (Director), Heather Carpenter, Christine Fountaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director), Susann Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegler. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

BOEING: A VICTIM OF ENRON MANIA?

"Boeing's secret" (Cover Story, May 20) was way off target: There was no secret—Boeing Co. did not hide its production problems in 1997.

Your reporters wanted to advance the Enron Corp. story on the back of an international icon. In the process they did a disservice to Boeing's leadership and its employees. Here is a sampling of third-party reviews available:

From Goldman Sachs: "Questions raised by *BusinessWeek* were irrelevant...We consider Boeing's approach to program accounting to be...relatively conservative."

From Merrill Lynch: Boeing's program accounting "follows the normal accrual accounting convention of trying to match costs and revenues."

From Morgan Stanley Dean Witter: "*Biz Week* article misses mark."

Larry McCracken
 Vice-President for Public Relations
 Boeing Co.
 Chicago

I feel your magazine owes an apology to the employees of Boeing, their shareholders, and the general public. It is this reader's understanding that, after the Enron scandal, Boeing was found to be one of only two companies that discloses stock option payments it makes to its executives...a problem at the very heart of what Enron did wrong.

Bruce Manning
 Creve Coeur, Mo.

In your recent issues, I find and more "rear-view mirror" articles. Case in point: "Boeing's secret" three weeks earlier, the GE article "Education of Jeffrey Immelt," (Cover Story, Apr. 29). Every company has become an Enron suspect until proven

innocent—even the practices of companies can with current general accounting standards.

Old news at best, another unnecessary story for investors.

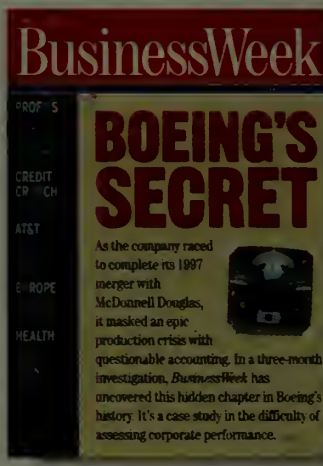
Peter C. Stearns
 Mission Viejo, Calif.

As one who was around the halls of now-lost McDonnell Douglas Corp., I can say most of the people

in St. Louis had no idea what was on behind the scenes. We were all surprised by the bill of goods by Boeing. From the perspective of the gritty founder who had no intention to continue the family heritage to an outsider who wanted a fast solution, one thing is certain: Compared to the personal drive that created the 747, Boeing 787-15 and sent a man to the moon, the "new generation" is soft in more places than the Pillsbury doughboy.

I. John F. Smith
 St. Louis

I read with great interest your excellent article on how Boeing may have concealed its production and supply problems in 1997, which might have harmed its plan to acquire McDonnell Douglas. I have done some research on the shareholder value implications of production problems. In fact, the revelation to study this issue was spurred by the news release by Boeing in



PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VPS, SALES: Mark A. Flinn (Northeast region and BWTV), Karen Christiansen (Southeast reg.), Grant A. Getz (Midwest reg.), Robert J. Maund (West reg.)

VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maravigna
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carver
VP, STRATEGIC PLANNING: Kimberly Greer
VP, STRATEGIC PROGRAMS: Jim Richardson
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, MARKETING: Patricia Crocker France
VP, CONSUMER MARKETING: Joyce Swingle

The McGraw-Hill Companies

BusinessWeek
 JUNE 10, 2002 (ISSN 0007-7135) *** 3786
 Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).
 Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2100. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate \$54.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies/back issues, \$9.95. Call 1-800-228-9867 or email: busweek@mh.com. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579.
 Postmaster: Send address changes to *BusinessWeek*, P.O. Box 52235, Boulder, CO 80322-3235. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Registered for GST as The McGraw-Hill Companies, Inc. GST #R123075673.

Copyright 2002 by The McGraw-Hill Companies, Inc. All rights reserved. Registered in U.S. Patent Office. European Circulation Center, Met Office, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 924646.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, President, and Chief Executive Officer; Kenneth M. Vittor, Executive President and General Counsel; Robert J. Bahash, Executive Vice President; Chief Financial Officer; Frank D. Pengelase, Senior Vice President, Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$1.00 per copy of each article. Send payment to CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address requests for customized bulk reprints to *BusinessWeek* Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135/02 PRINTED IN THE U.S.A.



length + agility = performance

Photo: Al Seib. Costumes: Dominique Lemieux. © 1999 Cirque du Soleil Inc.

**AEP AMERICAN
ELECTRIC
POWER**

AEP knows the equation for financial success. Our business model is built on rich, diverse assets across the energy spectrum. This provides a strong foundation for sustainable growth in a variety of market scenarios. Add substantial financial resources, and we have the flexibility to seize the right business opportunities. Put it all together, and you have an energy leader uniquely positioned for long-term financial performance. AEP.

aep.com

NYSE: AEP

AEP is a proud sponsor of **Cirque du Soleil**® 2002 North American Tours
© 2002 American Electric Power Co., Inc.

Readers Report

CORRECTIONS & CLARIFICATIONS

In Inside Wall Street (June 3), the name of the company featured in the second item was misspelled. The headline should read: "For SonoSite, a strong pulse." The company's ticker symbol, SONO, was correct.

1997 about the production problems. At that time, I found it very strange that Boeing would make the announcement after the merger was approved. Such problems do not happen suddenly, and I had a feeling that Boeing managers perhaps knew about the problems long before but did not reveal it, as the news would have scuttled the merger. This was pure speculation on my part. Your article strongly indicates that this indeed was the case.

Since senior managers were aware of the problems, it might be interesting to see the extent of insider trading by Boeing managers around the time of the merger announcement. Thanks again for a good piece of investigation.

Vinod Singhal

Professor of Operations Management
Georgia Institute of Technology
Atlanta

A DEATH IN THE NETHERLANDS

"Murder in the Netherlands" was excellent, but it just scratched the surface (News: Analysis & Commentary, May 20). Does Europe need immigrants? If yes, what kind? Why must asylum seekers from Afghanistan end up in Germany or France, not in Pakistan or Iran where they would be better equipped to deal with the local culture and begin a new life more successfully? Any European merely asking these questions risks being labeled a racist, Nazi, or worse. I have lived in Europe for the past 14 years and have witnessed this firsthand as well as seen it in the European media.

True, many rightist politicians addressing the immigration issue have, by digressing into arcane, irrelevant, and largely incorrect discussions of World War I and World War II, given leftist politicians and the media the excuse not to address the real issue. But immigration from countries very different from those in Europe is radically changing the social fabric. Choosing not to discuss this fact has not made it go away.

Carl Alan Key
Vienna

Let's see: Pim Fortuyn was for direct election of local representatives, cutting school class sizes, and gay rights. He was against female genital mutilation and was assassinated by a left-wing animal rights activist. And yet Fortuyn is described by *BusinessWeek* as an "extremist"?

Pray tell, what exactly do you consider "middle of the road"?

Scott R. Ratsch
Chicago

Congratulations on your excellent analysis of the Dutch situation and the European situation in general. The scary corrosion of public life in most European countries has been going on for the past 15 to 20 years. The unresponsiveness of the mainstream political parties and politicians produced Jörg Haider in my native Austria and Jean-Marie Le Pen in France.

The mainstream parties, left and right of center, have such a low tolerance for political incorrectness that charismatic figures with pronounced views of what needs to be changed will continue to thrive in formerly marginal political parties and permanently change the political landscape.

This will be even more so as Europe becomes socially more divided and altogether more heterogeneous—much more like the U.S., even if [European Commission President] Romano Prodi and others on Cloud Nine like to believe otherwise. Sad as it is, Pim Fortuyn did not die in vain.

Bernhard K. Kopp
Oak Park, Calif.

DON'T SELL THE PGA TOUR SHORT

"The PGA Tour: Where's the green?" (Sports Business, May 20) was a disappointment to the PGA Tour and its many sponsors.

Sponsors continue to be drawn to our sport for four primary reasons:

1) They appreciate the image of integrity, sportsmanship, and charity that is the foundation of the Tour.

2) Our fan base has shown steady growth that has accelerated in recent years.

3) Ratings for PGA Tour telecasts continue to buck the trend of declining ratings for sports.

4) Tour events offer title sponsors exceptional opportunities for brand exposure and client hospitality.

Given these facts, it's disappointing that *BusinessWeek* chose to characterize our current environment as one of

"sponsor fade-out." In fact, it's our continued strong support from sponsors.

Robert J. Co
Senior Vice-President
PGA

Ponte Vedra Beach,

KUDOS FOR BOB BARKER'S TYCO SENDUP

I liked Robert Barker's parody Tyco International Ltd. ("10 ways to prop up Tyco," *BusinessWeek* Investor May 20). I am a Tyco long, but Tyco execs certainly deserve to have their noses tweaked a bit.

Daniel Hoff
Philadel.

Excellent satire. Tyco is a train wreck looking for a curve. In January, I suggested to friends to get out or show they won't have to buy beer for months.

Paul McWill
Shawnee Mission,

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archive starting in 1991 are available on the World Wide Web.

www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: *BusinessWeek*, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020

Fax: (212) 512-6458

Email: bwreader@businessweek.com

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>

(click "Manage Your Account")

For individual subscriptions, corporate subscription and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

Email: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

Email: bw_group@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

Email: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use; \$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

Email: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm

THE PRINCIPAL® 10 BEST WINNERS

ADVANCED FINANCIAL SOLUTIONS, INC. (AFS)
APPLIED TECHNOLOGY AND MANAGEMENT, INC. (ATM)
CALENCE, INC.
ECS, INC.
FGM, INC.
MARC USA, INC.
METROPOLITAN MORTGAGE & SECURITIES CO., INC.
NORDIC CONSTRUCTION, LTD.
PRE HOLDING, INC.
TILLER CORPORATION

CONGRATULATIONS TO THE WINNERS OF THE PRINCIPAL® 10 BEST COMPANIES FOR EMPLOYEE FINANCIAL SECURITY. You have been selected by judges from the nation's top institutions as the ten growing businesses that provide the best in everything from employee retirement plans to benefit education. As the nation's 401(k) leader, The Principal® understands the importance of securing financial futures. And we couldn't be prouder of these fine companies.

WE UNDERSTAND WHAT YOU'RE WORKING FORSM

www.principal.com



WEALTH AND DEMOCRACY

A Political History of the American Rich

By Kevin Phillips

Broadway Books • 473pp • \$29.95

WHY THE RICH KEEP GETTING RICHER

Kevin Phillips is most often identified in the press as a “Republican strategist” since he once had a consulting and polling firm near Washington. But he’s hardly just another GOP spinmeister. In fact, Phillips is a thoughtful analyst and historian. And he gives most card-carrying Republicans severe heartburn by focusing on the “popular resentments” of America’s beleaguered middle class and the dangers the party faces by ignoring discontent. To conservative members of the party, Phillips is just fanning the flames of a class warfare which, conventional wisdom holds, will never have much appeal for Americans. Phillips’ latest book, his ninth and most ambitious, may finally drive his conservative critics mad, but it can’t easily be dismissed.

Wealth and Democracy: A Political History of the American Rich is no polemic. Instead, it convincingly places Phillips’ ideas in a broad historical and economic context. It has the same basic argument as his 1990 book, *The Politics of Rich and Poor*: The wealthy use their money to buy influence and then employ their resulting influence to accumulate more money. But now it’s better explained, more gracefully written, and backed up with statistics, tables, and charts. And there’s a new wrinkle. The superrich, he says, sometimes get their comeuppance in the form of stock-market crashes that are all part of the cycle he describes.

Phillips is connecting many dots here. For example, he links both the Dutch tulip mania and what he calls today’s “Second Gilded Age” to the waxing and waning political influence of the megamoneyed class. (We’re talking here not of the \$125,000-a-year lawyer but of the \$2 million-a-year investment banker and the \$40 million-a-year CEO.) While it’s not intended to make readers take to the streets, *Wealth and Democracy* is

enough to make any but the most privileged Americans deeply suspicious about the growing influence of the wealthy on their government.

In the Phillips theory, economic and political forces in the U.S. and other countries have repeatedly generated periods featuring speculative bubbles, political scandals, bursts of inflation and deflation, and voter revolts. The excesses of America’s free market and moneybags democracy in particular make the pattern re-occur in intense series of booms and busts. Phillips identifies three distinct U.S. historical cycles—we are at the end of the third—in which the egalitarian policies of moderate GOP Presidents Abraham Lincoln, William McKinley, and Richard M. Nixon get replaced “conclusively by the language of Wall Street, Darwinism, and tax-cut worship.” The result each time has been a greater concentration of wealth and power at the top.

The cycles follow a familiar pattern. The Civil War, World War I, and the Vietnam War spurred government spending and price increases and allowed some parts of the economy to accumulate inordinate wealth. A speculative mania followed sooner or later in sectors such as shipping and railroads, and later telecommunications and computer technology. The gathered wealth afforded its beneficiaries greater political influence, which was used to buy economic policies to their liking, such as cuts in taxes on income, estates, and gifts.

So where are we now? In a bad place, says Phillips. Once again, wealth disparity is at a peak. The middle class is working longer hours for stagnating wages and declining health and retire-

ment benefits. The average household cash income has remained flat through the ’80s and ’90s for all but the top 1% where it zoomed from an inflation-adjusted \$256,000 to more than \$600,000. Tax policy is increasingly skewed in the benefit of millionaires, while Social Security and Medicare are facing long-term deficits. Corporate welfare under the tax code and the federal bailout of manufacturing companies are reducing production and jobs abroad in search of lower wages and taxes.

Nor is America’s international position secure. The U.S. presents the troubling visage of the leading world economic power—purple-veined with yellow, high living, lips curled with the arrogance of great wealth, eyes bloodshot with the late vigils of increasing

recent financial crisis, Phillips writes. Most notably, Phillips compares the U.S., post-September 11, to Holland in the 1700s and Britain in the 19th century, when, at the peak of its economic power, expended its energy and treasure in a burst of warfare.

If Phillips’ book says anything, it is a warning about the final chapter of the American dream.

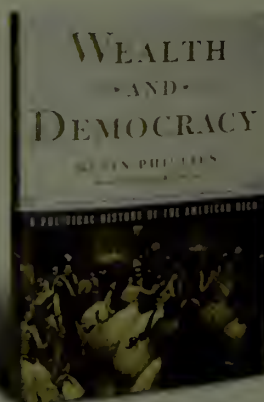
wrapping up 10 things that

Washington’s policymakers might do. On the other hand, this might sound like coming from such a skeptic. He says that today’s situation can be corrected with a new burst of “radicalism” seeded by economic and political conservatism. As for specific cures, Phillips suggests only higher taxes on income and income to diminish wealth imbalances and higher import duties to “recapture the U.S. internal market for domestic producers and workers.”

Such notions aren’t going to be popular on Wall Street. So, if you believe that President Reagan’s supply-side cuts worked as advertised, if you believe the wealthy are rich because they work harder, if you oppose campaign-finance reform, and you feel that American globalization is just fine, you had better have an expensive single-malt Scotch whisky by your side as you read this book.

BY PAUL MAGNUSON

Magnusson covers politics and national trade from Washington.



PHILLIPS SAYS THE VERY WEALTHY GET THAT WAY IN PART BY SKEWING U.S. POLICY IN THEIR FAVOR

MOVADO

the art of time

pete sampras, grand slam legend.
movado se[®]. stainless steel. silver soleil dial.
swiss quartz. sapphire crystal. water resistant.



The BusinessWeek Best-Seller List

HARDCOVER BUSINESS BOOKS			LAST MONTH	MONTHS ON LIST
1	WHO MOVED MY CHEESE? Spencer Johnson (Putnam • \$19.95) <i>Learning to accept change.</i>	1	40	
2	GOOD TO GREAT Jim Collins (HarperBusiness • \$27.50) <i>How run-of-the-mill companies make the leap to excellence.</i>	2	7	
3	FISH! Stephen C. Lundin, Harry Paul, John Christensen (Hyperion • \$19.95) <i>Motivate employees the Pike Place Fish Market way.</i>	3	20	
4	YOUR ROAD MAP FOR SUCCESS John C. Maxwell (Thomas Nelson • \$22) <i>Following the path that's right for you.</i>	--	1	
5	MARTHA INC. Christopher M. Byron (Wiley • \$27.95) <i>Behind the domestic diva's mystique.</i>	--	1	
6	PRIMAL LEADERSHIP Daniel Goleman, Richard Boyatzis, Annie McKee (Harvard Business School • \$26.95) <i>Using "emotional intelligence" as a leadership tool.</i>	5	3	
7	FIRST, BREAK ALL THE RULES Marcus Buckingham, Curt Coffman (Simon & Schuster • \$26) <i>A Gallup probe into managerial success.</i>	6	36	
8	JACK Jack Welch, with John A. Byrne (Warner Business • \$29.95) <i>GE's ex-chairman reflects on his life and accomplishments.</i>	4	8	
9	FISH! TALES Stephen C. Lundin, John Christensen, Harry Paul, with Philip Strand (Hyperion • \$19.95) <i>Reel in more of the "Fish! Philosophy."</i>	--	1	
10	NOW, DISCOVER YOUR STRENGTHS Marcus Buckingham, Donald O. Clifton (Free Press • \$26) <i>How to bolster your true talents.</i>	8	16	
11	WHALE DONE! Ken Blanchard, Thad Lacinak, Chuck Tompkins, Jim Ballard (Free Press • \$19.95) <i>Tips from Shamu's trainers.</i>	10	2	
12	F'D COMPANIES Philip J. Kaplan (Simon & Schuster • \$18) <i>A catalog of dead and gone dot-coms.</i>	--	1	
13	THE 21 IRREFUTABLE LAWS OF LEADERSHIP John C. Maxwell (Thomas Nelson • \$22.99) <i>A minister's down-to-earth rules.</i>	13	19	
14	RAVING FANS Ken Blanchard, Sheldon Bowles (Morrow • \$20) <i>Turning customers into your biggest boosters.</i>	14	42	
15	THE LEADERSHIP SECRETS OF COLIN POWELL Oren Harari (McGraw-Hill • \$21.95) <i>Atten—shun!</i>	9	3	
PAPERBACK BUSINESS BOOKS			LAST MONTH	
1	RICH DAD, POOR DAD Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$15.95) <i>Teach your kids the rules of money that the rich play by.</i>	1		
2	FAST FOOD NATION Eric Schlosser (HarperCollins • \$13.95) <i>The bad news on burgers.</i>	3		
3	A BEAUTIFUL MIND Sylvia Nasar (Touchstone • \$16) <i>A biography of Nobel laureate John Forbes Nash Jr.</i>	2		
4	THE 7 HABITS OF HIGHLY EFFECTIVE PEOPLE Stephen R. Covey (Fireside • \$14) <i>Habitually popular.</i>	6		
5	RICH DAD'S RETIRE YOUNG RETIRE RICH Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$17.95) <i>Plan ahead.</i>	4		
6	THE TIPPING POINT Malcolm Gladwell (Back Bay • \$14.95) <i>What turns an idea into a hot trend.</i>	5		
7	KITCHEN CONFIDENTIAL Anthony Bourdain (Ecco • \$14) <i>A peek inside the restaurant industry, by a veteran chef.</i>	11		
8	RICH DAD'S CASHFLOW QUADRANT Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$17.95) <i>Move from job security to financial independence.</i>	9		
9	GETTING TO YES Roger Fisher, William Ury, Bruce Patton (Penguin • \$14) <i>A Harvard team's step-by-step guide to conflict resolution.</i>	8		
10	REAL ESTATE RICHES Dolf De Roos (Warner • \$17.95) <i>Why buildings are better investments than stocks.</i>	10		
11	WHAT COLOR IS YOUR PARACHUTE? Richard Nelson Bolles (Ten Speed • \$16.95) <i>The 2002 edition of the enduring job-search bible.</i>	15		
12	THE ONE MINUTE MANAGER Kenneth Blanchard, Spencer Johnson (Berkley • \$12.95) <i>Management techniques in story form.</i>	12		
13	RICH DAD'S GUIDE TO INVESTING Robert T. Kiyosaki, with Sharon L. Lechter (Warner • \$19.95) <i>Becoming rich, not merely comfortable.</i>	--		
14	SUZE ORMAN'S FINANCIAL GUIDEBOOK Suze Orman (Three Rivers • \$11.95) <i>Financial self-help, in workbook form.</i>	7		
15	THE 9 STEPS TO FINANCIAL FREEDOM Suze Orman (Three Rivers • \$13.95) <i>Learn to save.</i>	13		

BusinessWeek's Best-Seller List is based on a survey of chain and independent booksellers that carry a broad selection of books on economic management, sales and marketing, small business, investing, personal finance, and careers. Well over 1,000 retail outlets nationwide are represented. Current rankings are based on a weighted analysis of unit sales in April.

Reviews and more are available on AOL (Keyword: bw) or www.businessweek.com

ON THE RISE

STANLEY BING HAS A TIP FOR SALMAN Rushdie: If you want to poke fun at a religion, choose a mellow one and there'll be less fuss. Zen Buddhism, for instance—which, along with bosses, is the object of much sport in the *Fortune* columnist's management-book parody, *Throwing the Elephant* (HarperBusiness, \$20.95).

It's Mel Brooks meets the bodhisattva. "To labor is to suffer, and probably for too little money." Badda-bing. "The road to wisdom lies in two frequent states of being: sitting

and silence. Mostly in meetings." Badda-boom. Bing's boar belt sutra looks at a range of topics, including complimer trusting, disobeying, and ignoring the boss, or "elephant

Even at a mere 201 pages, the book may tire some ers. But hold on for enlightening anecdotes and quote-volving figures from Martha Stewart to Jerry Levin to F Lauren, revealing narcissism, callousness, self-decep and/or ignorance. They'll take you to a higher plane.

BY HARDY GF

STEPHEN H. WILDSTROM
you@businessweek.com

BLUETOOTH: OR NOW, IT'S A PAIN



ot for the
n cost and
absence of
standardized
ware, this
nology
ld be hot

Those of us who have been working with computers for 20 years or more remember a time when getting PCs to communicate was a black art. I took an unwelcome trip back to those bad old days recently when I tested a flock of new devices that use Bluetooth, a wireless technology.

This is a shame, because the technology has tremendous potential. Bluetooth is short-range wireless designed to let devices connect without fuss or cables. You can link a wireless phone to a headset, a laptop to a printer, or let a PC or handheld computer use a wireless phone as a modem. To sample the range of Bluetooth products now shipping, I tried a Toshiba Bluetooth card for Palms, a Hewlett-Packard printer, and a Sony Ericsson phone. I also tried PC and Mac adapters from D-Link Systems, 3Com, and TDK. My final tests were a Compaq iPAQ Pocket PC and IBM and Toshiba laptops with built-in Bluetooth. A maddening lack of standardization in the software turned each setup into a frustrating adventure.

On the most basic level, the hardware works fine. If you put a Bluetooth device into "discoverable" mode, any other device within about 30 feet can find it and display its name. The next step is to set up a "pairing" or "bonding"—different software uses different terms—between two devices. This requires picking the partner from a list on each device and entering the same password on each. The way this is done is a little different for each pair of devices, and it doesn't always work on the first try. But at least the pairing, once established, is permanent.

Once the devices are paired, there's still the problem of establishing meaningful communications. The most important use of Bluetooth, which is gaining considerable popularity in Europe, is getting laptop or handheld computers

to link to a wireless phone to sync contacts and calendar or to use it for Internet access. It took a lot of tech support help from both VoiceStream Wireless and Ericsson, but I did eventually get the excellent, tiny Sony Ericsson T68 Bluetooth phone (\$200 with activation) working with Windows XP, Mac OS X, and Pocket PC 2002 computers. I could have accomplished the same thing with less effort using the infrared links on the computers and the phone. But Bluetooth, once it gets easier to set up, has a big advantage: You don't need a clear line of sight between ports that infrared requires, so the phone can stay in your pocket, purse, or briefcase.

Apple Computer, which jump-started wireless networking in 1999 by introducing its low-cost AirPort system, is hoping to do the same for Bluetooth. It has added Bluetooth support, which it wisely calls a "technology preview," to OS X and has worked with D-Link Systems to market a tiny USB Bluetooth adapter for \$50, less than half the cost of competing products. With a fair amount of experimentation and a couple of tech support calls, I was able to get a Mac to sync with a Palm m515 over Bluetooth.

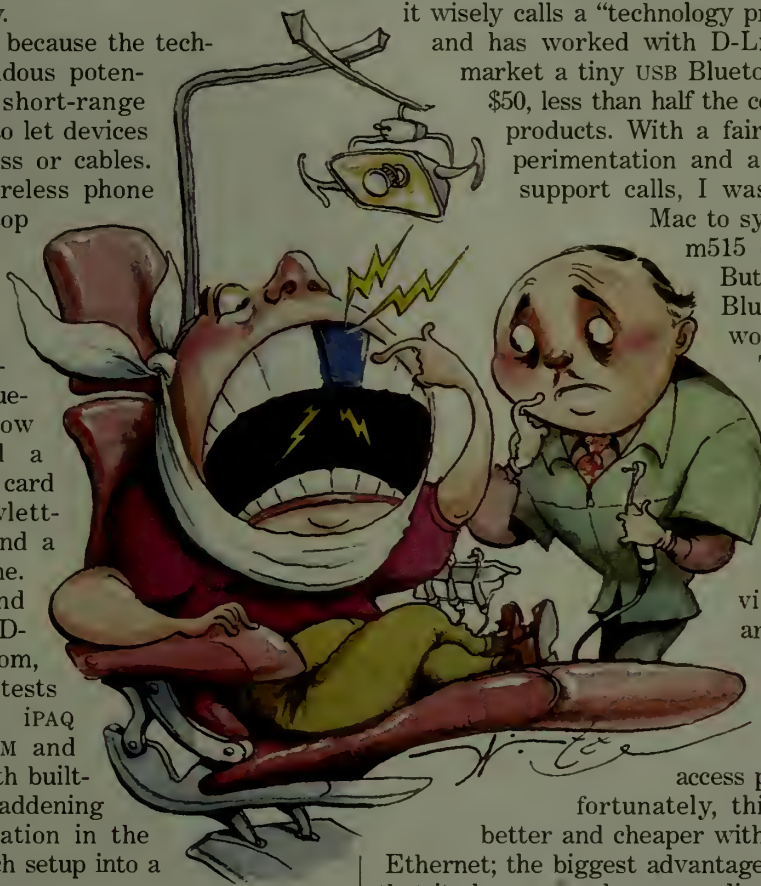
But I never did get Bluetooth sync to work with an IBM ThinkPad T30.

The use of Bluetooth that I found simplest to set up was connecting a variety of devices to a local area network and the Internet using a Pico Communications PicoBlue access point (\$490). Un-

fortunately, this task is done better and cheaper with Wi-Fi wireless

Ethernet; the biggest advantage of Bluetooth is that its less power-hungry radio drains batteries a lot slower than Wi-Fi.

For Bluetooth to come anywhere close to realizing its potential, two things need to happen. Prices have to decline sharply, which will take place as production volumes rise. And the software has to become simpler and standardized. For many uses, the key will be integration of Bluetooth with Windows. But Microsoft won't include Bluetooth support in a Windows XP update due this fall and probably won't have the software ready until early next year. If Microsoft eventually makes using Bluetooth with XP as simple as they have made Wi-Fi networking, the technology could take off. Until then, however, Bluetooth is probably best left to the gadget-happy tinkers who are willing to put in the effort to get it working. ■

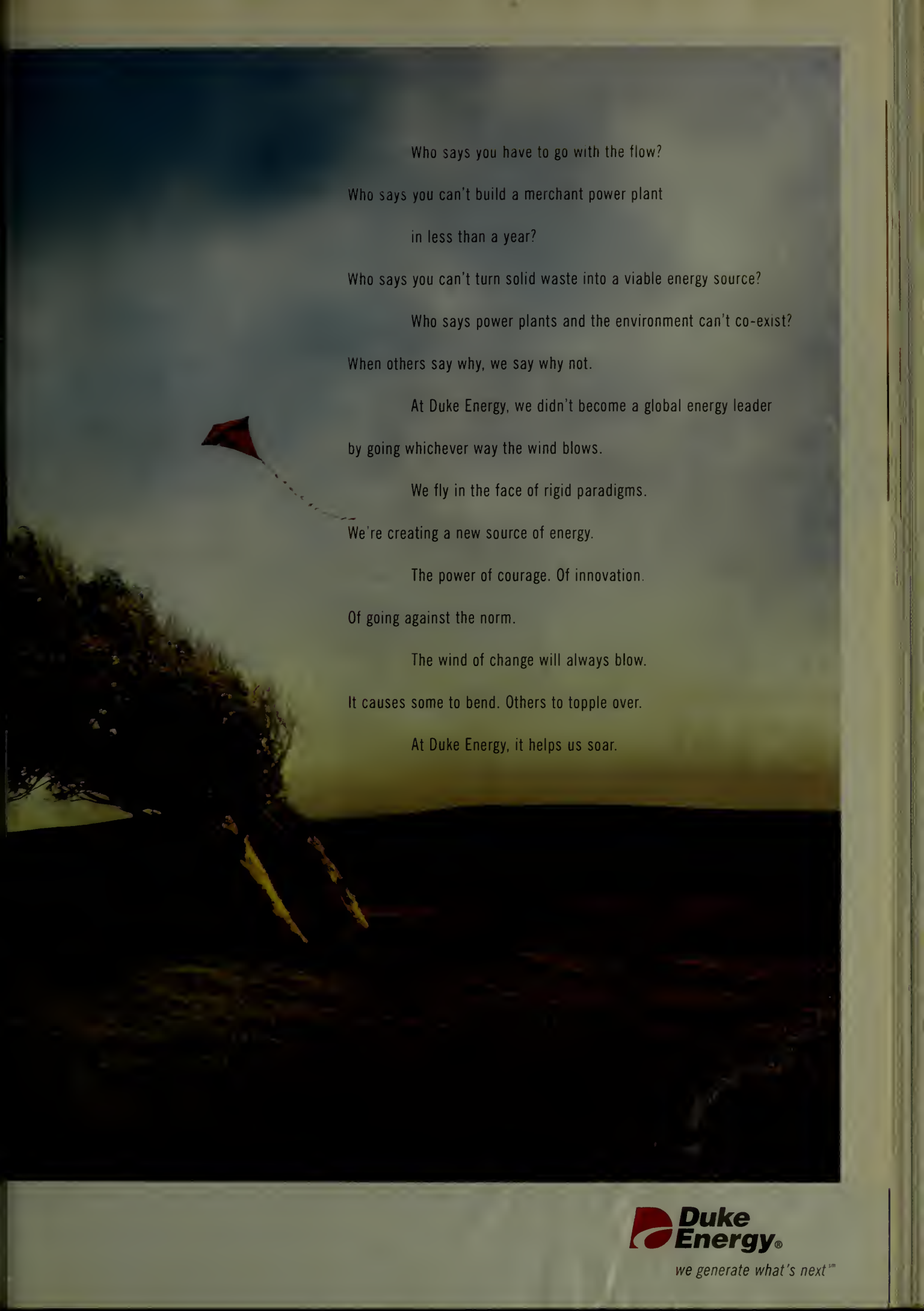


BusinessWeek online
COLLECTION OF
COLUMNS and
only reviews of
technology products, go
Technology & You at
businessweek.com/
ology/

A man in a suit stands in a dark, stormy landscape. A large, dark silhouette of a tree is on the right. The sky is filled with dark, swirling clouds. The overall mood is dramatic and mysterious.

we generate who says!

What can Duke Energy generate for you? Visit us at www.duke-energy.com or 1-800-use-duke.



Who says you have to go with the flow?
Who says you can't build a merchant power plant
in less than a year?
Who says you can't turn solid waste into a viable energy source?
Who says power plants and the environment can't co-exist?
When others say why, we say why not.

At Duke Energy, we didn't become a global energy leader
by going whichever way the wind blows.

We fly in the face of rigid paradigms.
We're creating a new source of energy.

The power of courage. Of innovation.
Of going against the norm.

The wind of change will always blow.
It causes some to bend. Others to topple over.

At Duke Energy, it helps us soar.



we generate what's nextsm

BY ROBERT J. BARRO

THE MYTH THAT POVERTY BREEDS TERRORISM



DEPRIVED?

A new study shows that terrorists are better-educated and better off than many of their countrymen

So far, the U.S. war on terrorism has focused on military action against identified terrorists and on improvements in domestic and international security. However, many argue that longer-term improvements depend on lessening the root causes of terrorism, especially poverty and low education. For example, writing in *BusinessWeek* last December, Laura D'Andrea Tyson argued: "We live in a world of unprecedented opulence and remarkable deprivation, a world so interconnected that poverty and despair in a remote region can harbor a network of terrorism dedicated to our destruction. In such a world, our prosperity and freedom at home increasingly depend on the successful development of countries like Afghanistan." According to this view, a lasting reduction in terrorism entails increases in the levels of income and education in poor countries.

But is this view correct? One hint that it may be wrong is that the September 11 hijackers came mostly from Saudi Arabia, a country that has reasonably high levels of per capita income and schooling. Therefore, terrorists need not come from the most economically deprived segments of society. A recent study at Princeton University by Alan Krueger and Jitka Maleckova, called "Education, Poverty, Political Violence and Terrorism: Is There a Causal Connection?" argues this point. The paper was scheduled for presentation at the World Bank's annual conference in Washington in April but was pulled from presentation in response to complaints initiated by a Kuwaiti executive director and later joined by other executive directors. A source at the Bank confirmed that the paper was withdrawn in response to this pressure, as well as fears that a controversial study of terrorist identities would serve to inflame an already highly sensitive political situation in the Middle East. The irony is that the annual conference was created to be a forum in which outside researchers could participate without fear of censorship. Solving problems, such as those in the Middle East, depends on having the reliable information that can come only from this sort of free scientific inquiry.

One piece of the Krueger-Maleckova evidence involves 129 members of Hezbollah who died in action, mostly against Israel, from 1982 to 1994. Hezbollah is now designated by the U.S. as a terrorist organization. Biographical information from the Hezbollah newspaper *al-Ahd* indicates that the fighters who died were, on average, more educated and less impoverished than the Lebanese population of comparable age and regional origin.

A similar finding applies on the other side of the Israeli-Palestinian conflict to Israeli Jewish extremists who attacked Palestinians in the Bank in the late '70s and early '80s. Many extremists were Gush Emunim members. A study of the Israeli terrorists reveals a pattern of high education and high-paying occupations.

Krueger and Maleckova also examine a survey conducted last December with Palestinians in the West Bank and Gaza. These polls tell us who supports terrorism, as opposed to who opposes it. One set of answers reveals a high level of support for the general policy of attacking Israeli targets. This support is stronger among the literate than the illiterate. In another question, 80% of respondents thought that the suicide bombing last June that killed 21 people at a Tel Aviv nightclub was not terrorism. (Respondents recognized overwhelmingly that the act was regarded as terrorism by international opinion.) Moreover, the Palestinians' adherence to the view that the mass murder of civilians was terrorism was independent of education and income, whether among those working or unemployed. Support for terrorism was not reduced by increases in education and income.

The same patterns apply outside of the Middle East. For example, a study by Charles L. Bowman and Miller (reprinted in the 1998 *Perspectives on Terrorism*) considered 181 terrorist groups, including the Japanese Red Army, Germany's Baader-Meinhof Gang, and Italy's Red Brigades. The authors found that "the vast majority of those individuals involved in terrorist activities as cadres or leaders is quite well educated. In fact, approximately two-thirds of identified terrorists are persons with some university training, [and] well over two-thirds of these individuals came from the middle or upper classes in their respective nations or areas."

I can only conjecture about why terrorists tend to have relatively high levels of education and income. One likely explanation is that the poorly educated persons make relatively ineffective terrorists. It is also likely that some forms of terrorism, such as those practiced in the West Bank and Gaza and other parts of the Middle East, tend to promote terrorism.

The main message is that it is naive to think that increases in income and education will, by themselves, lower international terrorism. The goal of reducing poverty remains laudable, but on grounds other than fighting terrorism. To find a lasting solution for the terrorism problem, we have to continue to look elsewhere.

Robert J. Barro is a professor of economics at Harvard University and a senior fellow of the Hoover Institution (rjbweek@harvard.edu).

SAMSUNG

ELECTRONICS

DigitAllrefuge

Samsung Flat Panel TVs.

It's hard to say where one will turn up next.

Office? Kitchen? Bedroom? There's almost no space that won't welcome an ultra slim and light Flat Panel TV. These very versatile, highly connectable TVs also feature the industry's first PC Picture-in-Picture. Meaning you can simultaneously view e-mails and TV, work while watching the game or get financial news while trading stocks online.

- High definition-ready for superior image quality.
- Virtual surround sound. Built-in speakers.
- Standard and wide screen aspect ratios.
- 15" and 17" models.

There's just one question left. Where to put it? See the possibilities at www.samsungusa.com.

Not just digital... **Samsung DigitAll!**

SAMSUNG DIGITAll
everyone's invited™

DigitAllwhere?

RC Willey
Camera. Speakers. Earbuds. Phones.

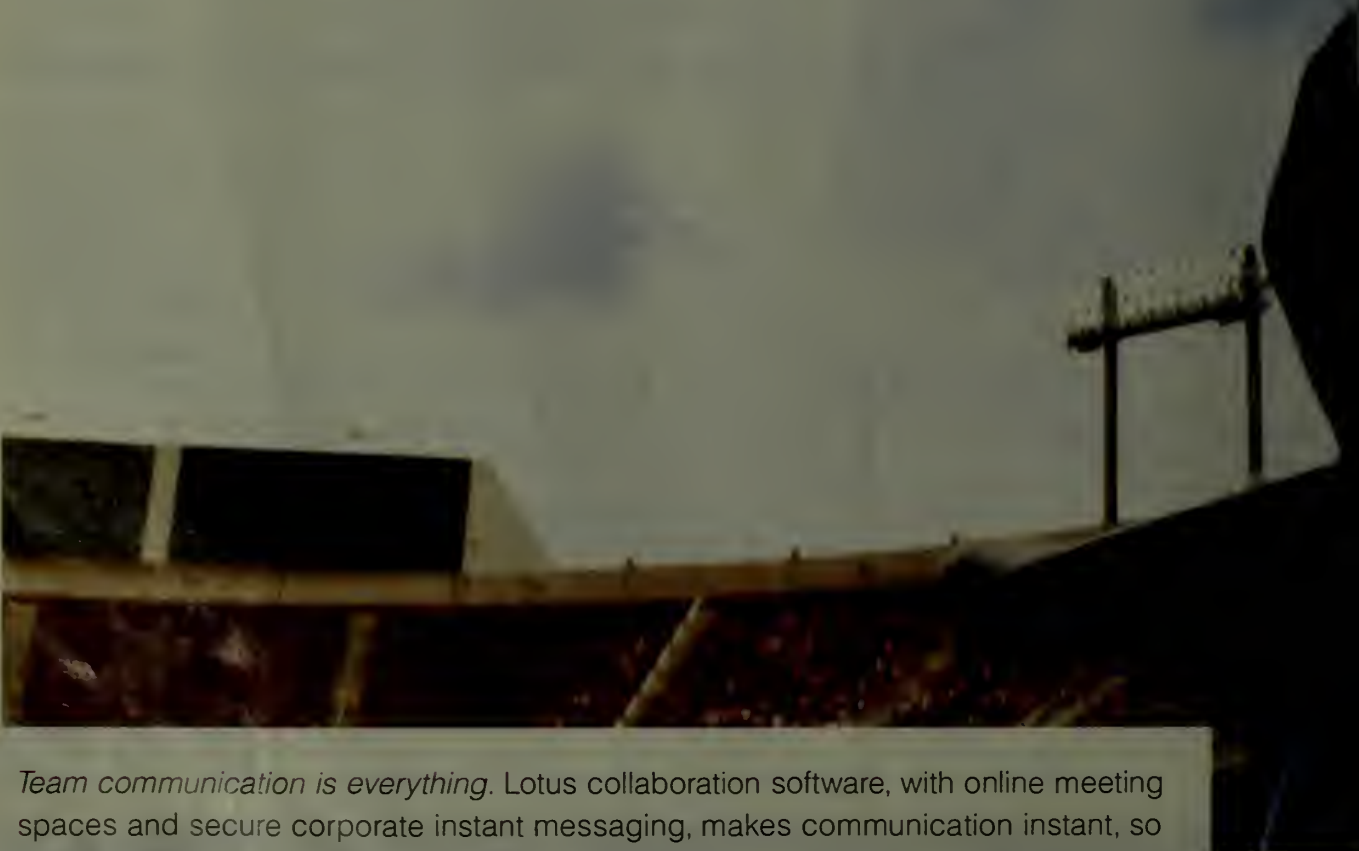
american

ULTIMATE
ELECTRONICS

THE WIZ

Lotus software

WINNING TAKES MORE THAN TEAM CHEMISTRY. IT TAKES TEAM SOFTWARE



Team communication is everything. Lotus collaboration software, with online meeting spaces and secure corporate instant messaging, makes communication instant, so every project goes down in the "win" column. Lotus. Part of our winning software team, along with DB2®, Tivoli® and WebSphere®. Check out our Webcast at ibm.com/lotus/team

© 2002 IBM Corporation. All rights reserved. IBM, DB2, Lotus, Tivoli, WebSphere, the e-business logo and e-business are trademarks of International Business Machines Corporation in the United States and/or other countries. Lotus Software, Inc.

Registered trademark of Lotus Software, Inc.

The IBM logo, consisting of eight horizontal stripes of varying lengths, with a registered trademark symbol (®) to its right.

@business is the game. Play to win.™

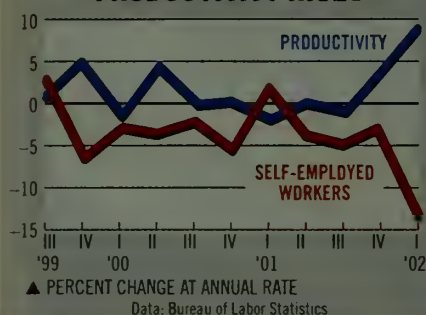
BY GENE KORETZ

PRODUCTIVITY: A RETAIL LINK

The spread of superstores helped

There's little doubt that U.S. productivity is on a roll. Despite the recent recession, output per hour in the nonfarm business sector has continued to forge ahead. Most economic gurus now agree that the productivity gains of the late 1990s reflect a long-term structural improvement, based on investment

WHEN SELF-EMPLOYMENT FALLS, PRODUCTIVITY RISES



in information technology and other increases in corporate efficiency.

Nevertheless, one little-noticed factor contributing to productivity growth will likely lose steam in coming years. That's the marked movement of workers from the ranks of the self-employed to payroll jobs.

Economist Mark Zandi of Economy.com Inc. observes that the self-employed work force has fallen from its 1997 peak of 9.3 million workers to nearly 8.2 million, cutting its share of total employment by a full percentage point, to around 6%. Significantly, declines in self-employment in recent years have almost invariably been accompanied by rises in productivity growth (chart).

Much of this trend, suggests Zandi, reflects the failure of mom-and-pop retailers pummeled by the success of national chains. In particular, huge retailers such as Wal-Mart Stores, Target, and Home Depot, which benefit from sophisticated inventory and logistics techniques and economies of scale, have been displacing local proprietors around the nation. Nationwide restaurant, video-store, and even homebuilding companies have had similar impacts.

The upshot has been both falling self-employment and a surge in retail productivity. According to a McKinsey

Global Institute study, retailing was one of six industries that accounted for almost all of the nation's productivity jump in the last half of the 1990s.

The decline in small retail outlets has enhanced the productivity numbers in another way. While small owners tend to hide some of their sales to avoid taxes, big national retailers have an incentive to report all sales to impress investors. That tends to boost measured retail output and productivity.

Sooner or later, of course, the retailing shift will play itself out. Indeed, with the big boys already in most geographical areas, "the proverbial low-hanging productivity fruit may have already been picked," says Zandi. If the ranks of the self-employed were to stop declining, he figures annual productivity growth could slow by 0.15 percentage point—not a big number, but enough to dim a bit of the New Economy's luster.

BLESS THE BABY BOOMERS

They're the real spending machine

It's a riddle that economists continue to ponder: Why did consumption stay so strong during last year's recession? And why do households keep spending in the face of slowing income gains?

One answer, says a report by economists Gail Fosler and Lynn Franco of the Conference Board, is that "the U.S. consumer sector benefits from underlying demographic and income trends that make it a formidable economic force in all but the most adverse circumstances," such as deep recession, high inflation, or severe setbacks in confidence.

In particular, the authors point to the baby boom generation, still the strongest demographic force in the American consumer market. Households headed by older working Americans—those 45 to 64—posted the fastest growth from 1994 to 2002, and these enjoy far higher wealth and income than other age groups.

What's more, these relatively affluent middle-aged households are still growing rapidly. By the end of the decade, the 45-to-64 group will account for some 40% of U.S. households, up from 30% in 1994 and 35% today. That'll help boost the number of upscale households. By 2010, Fosler and Franco estimate, some 47% of households will have incomes above \$50,000. Indeed those with incomes of at least \$100,000 are projected to rise by 38%, to 20 million.

In sum, the aging of the boomers promises to support undiminished consumption growth through the decade. And despite the continued emphasis on marketing to youth, the middle-aged households who are expected to have a rising share of outlays.

JAPAN'S FRUGAL SENIORS

How to loosen their purse strings

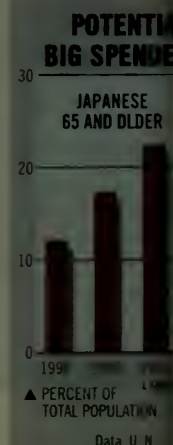
According to the life-cycle theory of consumption, people spend less as they earn during their working life and accumulate savings for consumption in retirement. They then liquidate savings in old age, using their wealth to supplement pension and other income.

If that description came close to characterizing the behavior of older Japanese households, the outlook for consumer spending would improve in a few years, a fifth of Japan's population will be over 65, and a quarter over 60. By 2020, the projected figures are 28% and 34%, respectively.

Unfortunately, Japan's seniors are hardly big spenders. Hiromichi Mutoh of the Japan Center for Economic Research notes in a recent article that the elderly spend only 10% to 16% more than their annual incomes. At that rate, figures it would take 56 to 89 years to liquidate the average financial assets of roughly 25 million yen (\$200,000 at current exchange rates) held by households headed by persons 65 and older.

One way to spur more spending by old folks, suggests Mutoh, would be to allay their fears about rising medical costs by boosting government outlays for health care, including the expansion of public and private nursing homes. Another would be to eliminate consumption taxes for seniors and give tax breaks to companies that provide services for the elderly.

With Japan's personal savings rate running around 28%, getting seniors to spend more won't solve the nation's consumption woes, says Mutoh. But it could at least give household spending a much-needed kick start.



We use a hands-on approach with our investment strategies.



Hard work and commitment. A strategic pair of values that drives Honda's growth in America. Our \$5.3 billion investment in the U.S. is evident in eight plants and an annual payroll of nearly \$1 billion. In 2001, Honda assembled over 1.29 million automobiles, motorcycles, ATVs and power-equipment products in America. Proof that contributing to the U.S. economy and expanding our business go hand in glove.

HONDA
The power of dreams.™

A good deal. A great cause.

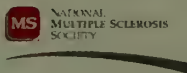
Tony Danza wearing
Burberry sunglasses.

Watch QVC's Cure by the Shore® Live
Saturday, June 1, 1-3pm ET on

QVC

Get accessories and more at half price, benefiting MS research.

Join us live in Malibu, California, for great shopping, celebrity watching and to support an important cause. Choose from an amazing selection of designer sunglasses, accessories, jewelry and beauty items, and — get this — they're all at half price. Even better, all proceeds benefit the National Multiple Sclerosis Society, so whatever you purchase, you're buying a gift for yourself and for others.



SPECIAL BENEFACTOR SAFILO GROUP HAS GENEROUSLY DONATED THESE SUNGLASS BRANDS: BURBERRY / CARRERA / CHRISTIAN DIOR / GUCCI / KATE SPADE / VALENTINO / AARON BASHA / AHAVA / ALLISON EYEWEAR, INC. / BARE ESSENTIALS / BIOTHERM / BLAINE TRUMP AMERICAN CLASSICS / BLUBLOCKER SUNGLASSES / BOB MACKIE - ELAN / C.P.F. TRADING, INC. / CARGO COSMETICS / CAROLE HOCHMAN DESIGNS, INC. / DERMABLEND / ESCADA / EXTE / GINA DESIGNS, INC. / GIVENCHY / HELLO KITTY BY FANTAS-EYES, INC. / HUE LEGWEAR / INGE CHRISTOPHER / JACMEL / JANET SARTIN SKIN CARE / JEEP EYEWEAR / JOAN RIVERS WORLDWIDE / JOEY NEW YORK / JONATHAN CATE EYEWEAR / KATHLEEN KIRKPATRICK / KENNETH COLE / L'OCCITANE EN PROVENCE / LATHER / LAURA GELLER MAKE-UP STUDIOS / MAUI JIM SUNGLASSES / MAXX, NEW YORK / MILOR / MJM JEWELRY CORP. / MODELS PREFER / MOJAVE / MURAD / NAPIER / NINE WEST / 180°S / PACE / PROSTRONG NAIL CARE PRODUCTS / ROMEO GIGLI / SALTON / SELECT JEWELRY / SMASHBOX COSMETICS / SUN LABORATORIES / THE SAK ELLIOTT / TOMMY HILFINGER / VICTORIA + CO. / WATHNE LIMITED / WOLFORD / WORLDWIDE DREAMS >> SPECIAL THANKS TO TONY DANZA FOR HIS SUPPORT OF QVC'S CURE BY THE SHORE

YOU DON'T HAVE TO BE
A FORTUNE 500 COMPANY TO EARN
TRAVEL REWARDS LIKE ONE.



WARDS

UND-TRIP TICKETS
ORLDWIDE IN FIRST CLASS,
INNESS CLASS OR COACH

IRALS CLUB®
SES AND MEMBERSHIPS

MESTIC AND
ERNATIONAL UPGRADES

D MORE

With Business ExtrAA, every time one of your employees flies on American Airlines or American Eagle, your company can earn Business ExtrAA points. The more points you earn, the more rewards you can get. Business ExtrAA keeps track of your company's flight expenditures, so all you have to do is watch your company's rewards grow. Which rewards you choose is up to you. Plus, your employees still earn their own personal AAdvantage® miles. To enroll in Business ExtrAA, visit www.BusinessExtrAA.com or call Business ExtrAA customer service at 1-800-457-7072.

American Airlines®
American Eagle

MORE ROOM. ONLY ON AMERICAN AIRLINES.®

Complete details about the Business ExtrAA program, visit www.BusinessExtrAA.com. American Airlines, American Eagle, AAdvantage, Admirals Club and Business ExtrAA are marks of American Airlines, Inc. American Eagle is American's regional airline affiliate. American Airlines reserves the right to change the AAdvantage program at any time without notice. American Airlines is not responsible for products or services offered by other participating companies. For complete details about the AAdvantage program, visit www.aa.com. *Only American has removed seats throughout Coach to provide more room for Coach passengers than any other airline. Now available on all American Airlines two-class aircraft; three-class aircraft reconfiguration in progress; not available on American Eagle.

THERE'S A NEW WAY OF LOOKING AT SAN FRANCISCO.

62 LUXURY TOWNHOMES AND TWO WATERFRONT ESTATES ON SAN FRANCISCO BAY

Never before has the style and sophistication of San Francisco been so gracefully replicated this close to the City. Just five miles north of the Golden Gate Bridge, DeSilva Island is spectacularly situated in a 31-acre nature preserve. With priceless views and award-winning floorplans. Homes now for sale from \$1.35 million.

Tour appointments: (415) 389-4666 www.desilvaisland.com

DESILVA ISLAND

Sales by McGuire Real Estate • Broker cooperation invited • Owner: LB DeSilva LLC
Development Consultant: Armax International, Inc. • Interior Photography by Mark Darley



AMES C. COOPER & KATHLEEN MADIGAN

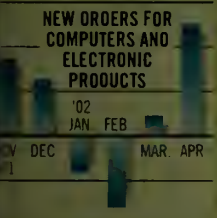
AT LAST, CAPITAL SPENDING STARTS TO JOIN THE RECOVERY

With profits and cash flow improving, corporate purse strings are loosening

U.S. ECONOMY For months, capital spending has been limited by a host of problems, including the tech bust, a profits recession, overcapacity. Throw in worries over the Middle East, rising oil prices, plus the threat of terrorism, and it's easy to see why corporate executives have been hesitant to shell out more money for new assembly lines, copy machines, and office space. Now, however, capital spending is taking a turn for the better. The signs are small, but growing: Key areas of business-equipment investment, especially high-tech gear, posted modest growth in the first quarter for the first time in more than a year. Those gains continued in April, according to the latest orders report (chart). Equally important: The Commerce Dept.'s upbeat data on first-quarter profits and cash flow show that companies have the funds to start spending again.

NEW ORDERS BOUNCED BACK IN APRIL

NEW ORDERS FOR COMPUTERS AND ELECTRONIC PRODUCTS



Month	Percent Change
Dec '01	-1.5
Jan '02	-0.5
Feb '02	0.5
Mar '02	1.5
Apr '02	2.5

MONTHLY PERCENT CHANGE
Data: Commerce Dept., DRI-WEFA

Orders of both new and existing homes posted surprising gains in April. What's missing is a sustained pickup in capital spending, and it's not just its direct contribution to real GDP, a domestic product that makes this sector crucial. It's also the area the Federal Reserve is examining for signs that the recovery is solid enough for policymakers to begin nudging up interest rates to levels more consistent with a neutral policy stance. And given the strong correlation between capital spending and payrolls, as companies begin lifting their outlays for new equipment, better job growth will not be far behind. Taking account of all these indirect effects, a capital-spending rebound is the key to sustaining this recovery.

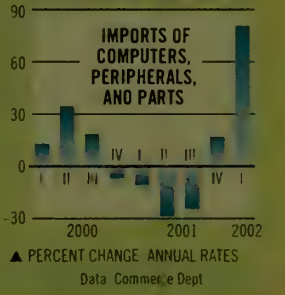
BE SURE, capital spending will not see a repeat of the boom years of the late 1990s. For one thing, the tech industry remains awash in excess capacity. For another, business construction is in a steep down-

turn and will be hampered by high office-vacancy rates and low factory-operating rates.

However, equipment investment is four times larger than construction outlays, and it is here where the turnaround is most evident. Total durable goods orders, ranging from cars to turbines to computers, increased 1.1% in April, and the report was far more optimistic than that top-line number suggested.

Orders for defense goods and commercial aircraft, which are extremely volatile month-to-month, fell sharply in April and masked a sizable increase in what economists call "core" orders, which exclude those components. In addition, March bookings were revised upward. The order gains are consistent with the latest reports on industrial output and the purchasing managers' survey, which both showed the manufacturing sector gaining strength.

A LOT OF TECH SPENDING IS GOING ABROAD



THE BEST NEWS for business-equipment outlays was in April orders for nondefense capital goods, which are an important proxy for business confidence. Overall orders rose 1.9%, and core capital-goods orders jumped three times that much. Bookings for computers and electronic products alone increased 2.5% in April, the second consecutive rise. Core equipment orders began the second quarter far above their first-quarter average, suggesting that orders are on track to post their first quarterly advance in nearly two years.

The solid April gains in equipment orders mean that U.S. producers may start to reap some of the benefits from the nascent capital-spending upturn. That wasn't true in the first quarter, especially in technology, where a lot of demand went to imports. The increase in tech imports probably explains last quarter's disconnect between rising outlays for capital equipment and downbeat reports from U.S. tech manufacturers.

According to the first-quarter GDP report, business spending for information processing gear rose at an annual rate of 4.4%, including a 31% jump in outlays for computers and peripheral items. Consumer spending on computers swelled 45%. But almost all of that equipment came from overseas: Computer imports soared 81% last quarter (chart). Because imports are sub-

Business Outlook

tracted from total GDP, overall sales of computers were actually calculated as a drop last quarter, even though demand in the U.S. for tech gear is growing.

A CRUCIAL DRIVER for increased spending is profits. The news here has been especially difficult to read recently, given accounting questions, the September 11 shock, and Washington's March tax-law changes. The latest profits report from the Commerce Dept. offers some encouragement, but it requires scrutiny.

That's because Commerce reports profits in two ways. The first reflects accounting practices for depreciation and inventories used in federal tax returns. The second is a measure of operating profits. Commerce tallies up inventories and depreciation on a replacement-cost basis, not the historical-cost basis used in the tax-return measure. According to the first gauge, profits before taxes in the first quarter were down 15% from a year ago, while operating profits, measured using the second method, were up 4.6%.

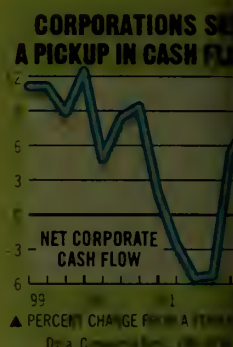
The difference largely reflects the Mar. 9 tax-law change that allowed for an immediate 30% depreciation write-off on certain investments, retroactive to September 11. Although the change wasn't enacted until near the end of the first quarter, Commerce calculated fourth-quarter profits as if the write-off had been taken. Thus, Commerce's measure of operating profits, which is typically the better earnings gauge,

surged in the fourth quarter compared with the t

In practice, companies will take longer to incorporate this tax benefit into their income statements. But the new provision means that businesses have shored up overpaid their tax liabilities and are set to enjoy a rush of new cash flow. Commerce's measure of cash flow, essentially profits plus depreciation allowance, rose 8.2% in the first quarter compared with a year ago, the fastest growth rate in nearly two years (chart).

This means that internally generated funds are becoming increasingly available for capital investment. Indeed, internal funds now cover nearly all of overall business outlays. The gap between these two measures had widened to a record level during the investment boom, which increased the demand for outside financing. Surveys also show that lending conditions at banks are easing up a bit.

Faith in the future is still a missing ingredient in the capital-spending turnaround. But the improvement in profits, cash flow, and financing opportunities is a step toward shoring up that confidence. So don't be surprised if companies start loosening their purse strings even more this summer.



FRANCE

THE PLUCKIEST SHOPPERS IN THE EURO ZONE

The euro zone is on the mend, and France is leading the recovery. The French upturn, as elsewhere in the region, is developing slowly, but unlike most of the euro zone, France is benefiting from steady gains in consumer spending. The second quarter is off to a good start, and the second-half pace should pick up in response to peppier global demand and expected stimulus from the new government.

French real gross domestic product in the first quarter rose 0.4% from the fourth quarter, when it contracted 0.4% from the third. The gain outpaced 0.2% increases in both Germany and Italy. The French advance was fueled by a

0.2% rise in consumer spending, which had increased 0.3% in the fourth quarter despite the drop in GDP. Inventories and business investment edged higher last quarter, while rising imports offset a pickup in exports.

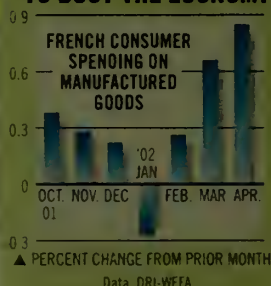
Spiking unemployment and falling consumer confidence are still limiting both consumer spending and business investment. March unemployment hit a 17-month high, and April confidence dipped to a four-year low amid both job and election-year uncertainties.

But despite those drags, consumer outlays for manufactured goods increased a strong 0.7% in March and another 0.8% in April. French factory output through

March has risen for three months in a row, and confidence among manufacturers hit a nine-month high in April as foreign orders gained. All of this means second-quarter GDP should rise in line with the Bank of France's projection of a 0.5% gain.

Still, the policy outlook—especially for tax cuts and labor markets—remains uncertain ahead of the legislative elections on June 9 and 16. Newly reelected President Jacques Chirac is expected to win a narrow majority of Parliamentary support. Chirac wants to cut income taxes sharply beginning this year, loosen work rules, and cut employers' social security contributions to boost demand and create jobs. The cost could be France's inability to balance its budget until 2007, far beyond the 2004 euro-zone guideline.

CONSUMERS CONTINUE TO BUOY THE ECONOMY



SAMSUNG

Makes you want to give your number to telemarketers.

©2002 Samsung Telecommunications America

Any excuse
to use it.

Samsung's a400 is powerful and sleek. So be careful, using it may become habit forming.

- Downloadable images and ringers
- GPS enabled
- Wireless Internet access

With style and features like these what other excuse do you need? Visit www.samsungusa.com/wireless or call 1-800-SAMSUNG.



Available at:

Sprint Store
The PCS Center

 **RadioShack**

**BEST
BUY**

**circuit
city**

SAMSUNG DIGITall
everyone's invited.



AMERICA'S BIGGEST JOB

Is the U.S. any less vulnerable to terror these days? Here's the good news—and the bad

As America prepares to gas up and go on summer vacation, it finds itself in the grips of a terror frenzy. Vice-President Dick Cheney and Defense Secretary Donald H. Rumsfeld caution that the next Big One could come any time now. Washington's jumpy anti-terror cops issue new warnings almost every day, urging vigilance at apartment buildings, nuke plants, border crossings, and national monuments—in short, just about everywhere. Investor

Warren E. Buffett even suggests there might be time to start shopping for a radiation suit.

If you're unsettled by all the alarms, you've got company. Some nine months after al Qaeda radicals launched devastating September 11 raids, plans to prevent a terrorist Act Two still hang on the chaotic.

Fortunately, chaotic doesn't necessarily mean ineffective. The good news is that the military campaign against Osama bin Laden has been disruptive and



DRING SURVEILLANCE
AS AT POLICE HEADQUARTERS
ASHINGTON, D.C.

le it less likely that his agents can
 ckly mount a September 11-type op-
 tion. State and local law enforcement
 e done a good job protecting the
 st tempting targets. Homeland Se-
 ty Director Tom Ridge has prodded
 ssroots public-health officials to pre-
 e for a bio-terror or nuclear attack.
 d largely on its own, American busi-
 s has begun the expensive process of
 pping up protection of office com-
 plexes, communication systems, and key
 ustrial facilities.

The not-so-great news: Major vul-
 nerabilities remain. Security experts
 tion that the shipping system, with
 stress on zippy, just-in-time tran-
 needs an emergency effort to in-
 ct containers and truck cargos and
 protect ports. Border control and
 lementation of a new immigrant-
 cking system lag badly. And law en-
 cement officials concede that policing
 public spaces, from mega-malls to
 me parks, is so uneven that terror-
 looking to strike a psychological

blow could still slip through the net.

Gaps exist despite a huge surge in safety outlays. "The problem with security spending is, how do you define 'enough'?" says Randall J. Larsen, director of the ANSER Institute for Homeland Security, a government-funded think tank. "It's going to take four to five years to make the changes we need.... And that's making targets harder to hit, not absolutely secure."

A big step forward could come on July 1, when Ridge is due to send President Bush a detailed plan that is expected to set overall security standards for key economic sectors. The result could be an enormous prod to business, pushing it to move faster and spend billions more to stave off terrorist assaults. "We will establish some standards of conduct," Ridge told *BusinessWeek*. "The 'miracle of the marketplace' won't necessarily solve all these problems."

What kind of standards, how stringent, and at what cost? Ridge won't say. About the only certainty is that complying with new standards will require untold billions. For Corporate America alone, estimates David A. Wyss, chief economist at Standard & Poor's (like *BusinessWeek*, a unit of The McGraw-Hill Companies), the fallout from September 11 will cost \$135 billion this year. That includes \$20 billion to upgrade workplace security, \$15 billion to back up information systems, and \$35 billion in higher insurance premiums.

Because security investment is not as productive as, say, buying new B2B software, company bottom lines will take a hit. "That burden slows down our productivity and our ability to generate wealth," says Robert "Steve" Miller Jr., chairman and CEO of Bethlehem Steel Corp. According to David D. Hale, chief economist at Zurich Financial Services Group, "security spending will take \$50 billion out of corporate profits at a very sensitive time of the business cycle." That's about 5% to 6% of earnings. Indeed, the White House Council of Economic Advisers estimates that by 2007, gross domestic product could dip by 0.6% annually because of new security obligations.

Despite the economic drag, Wyss contends that current security spending is inadequate, since September 11 showed that the psychological damage of a major terrorist attack can be far more devastating than the physical destruction.

An Apr. 30 study by the Brookings

Institution urges that federal spending for homeland security be boosted from the Administration's \$38 billion request for 2003 to \$45 billion, with business anteing up \$10 billion more. The Brookings team, led by defense analyst Michael E. O'Hanlon, went further, also urging that priorities include perimeter defense, big population centers, "critical economic assets," and symbols of national pride.

Without waiting for Ridge's homeland blueprint, business has been largely proceeding on its own. Companies such as DuPont have stepped up plant policing and employee screening and are working with industry trade organizations to develop model security procedures. "We hope these best practices will become de facto standards," says AT&T CEO C. Michael Armstrong, who heads the Business Roundtable's security task force.

Such industry initiatives sit well with the Bush Administration, which would rather issue general guidelines and grant business and state governments significant leeway on the compliance front. The obvious advantages: more flexibility, less bureaucracy, and lower costs due to a more relaxed timetable. But some experts warn that a New

Federalist approach to security simply is not up to the challenge of terrorists intent on striking at the nation's economic lifeline. "Ridge's office doesn't like [mandatory] federal standards," says ANSER's Larsen. "They've



“By and large, [the bill will] be borne by the consumer”

— TOM RIDGE, Homeland Security Chief

got to get over it." As the debate rages, here's a rundown of where the preparedness effort stands:

TRANSPORTATION

Transportation, especially shipping, remains the biggest point of vulnerability. Security specialists are particularly worried about the country's 300 ports and a lightly policed container system. Fewer than 2% of containers are inspected. "We are hiring hundreds of inspectors, but we can only do so

much," says U.S. Customs Commissioner Robert C. Bonner.

The answer, say some industry officials, is a process of certifying cargo and locking it into containers at the point of origin with tamperproof electronic seals. The e-seals would keep contents secure until an internal global positioning system is activated or until a radio or infrared signal at the destination is triggered to open the lock. But cost is a problem. Today's mechanical seals run up to \$1.50 each. An electronic device would cost up to \$2,000.

OIL AND CHEMICALS

Both government and industry remain deeply concerned about protecting oil refineries, chemical plants, and other big industrial targets. "We're trying to think about the unthinkable," reports Bobby R. Gillham, global security manager for Houston-based Conoco Inc. He says that the company has already spent a few million on protective barriers and vehicle searches. Gillham claims that "very little, if any [of the cost] is being passed on to customers."

The American Chemistry Council, representing 170 major companies, has adopted a new security program for its members in cooperation with the government's Sandia National Laboratories. Potential threats are ranked by managers, with input from outside safety officials. Still, security upgrades won't be in place for two to three years and are likely to cost hundreds of millions of dollars. And even so, "If somebody is intent on doing harm, they are going to find a way," says Beth Turner, DuPont's safety and security chief.

ENERGY

Interestingly enough, despite those scribbled drawings found in al Qaeda caves in Afghanistan, security experts believe that U.S. nuclear plants are among the most resistant to catastrophic attack. The nation's 65 facilities have been on alert against commando-style raids for years, and tough reactor housings could resist many airborne assaults. A bigger concern: protecting spent ura-

nium at plant sites and while it is shipped to a new repository in Nevada.

BUILDINGS

Although many companies have done a good job beefing up security at their office buildings and other facilities, safety measures are spotty in the absence of clear standards.

Another enormous problem is soaring

computer and communication networks. After the World Trade Center collapse, plans to back up data and permit employees to work from remote sites accelerated.

Going a step further, the Telecommunications Industry Assn. is working on a wireless emergency communication system that is not dependent on transmission towers and antennas. Bottom

While not impervious to a cyber-attack or a major urban explosion, the information industry is far ahead of many others in designing defenses.

With private industry efforts varying so widely, should you conclude that homeland security efforts are doomed to failure? Not necessarily. Brookings analysts say that if Ridge & Co. are prepared to back up a decentralized, largely voluntary system with an additional stream of mandatory security directives, the nation could strengthen its defenses without shifting to a rigid, wartime mobilization model. Normally, Republicans view such "unfunded mandates" with disdain. Ridge says he hasn't thrown them out—and is actually considering a bigger federal role in joint R&D efforts with business.

And just as the release of embarrassing information in the wake of the Enron scandal and Arthur Andersen's collapse is causing widespread changes in corporate be-

havior, government at all levels could use information to pressure the private sector to act with greater dispatch. Such a proach could go a long way toward making the country safer and its citizens more secure—while avoiding the costly and ultimately unattainable goal of absolute security in a democratic system.

Just because of the largely voluntary measures taken to date, "We are not and have more mechanisms in place to guard against a terrorist attack," concludes Washington Governor Eric L. Locke. "But there's just so much more that needs to be done." And so time to do it.

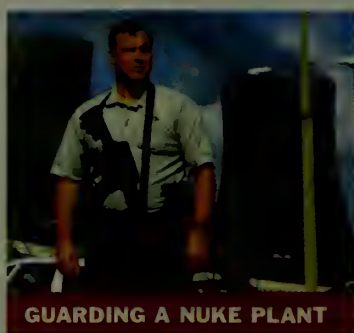
By Lee Walczak, Richard S. Lamm, and Paul Magnusson in Washington, with Pete Engardio in New York, Michael Arndt in Chicago, and bureau reports

Protecting the Homeland

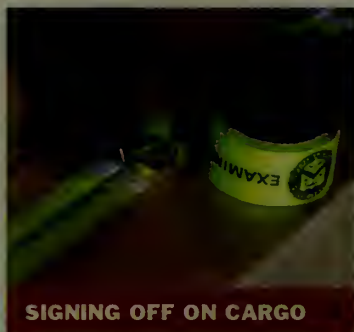
What a modest security-system upgrade would cost annually, in billions

INCREASED SECURITY AT TOP 50 PORTS	\$1.0
MORE COAST GUARD SURVEILLANCE	1.0
BEEFED-UP POLICING OF HAZARDOUS SHIPMENTS AND CHEMICAL PLANTS	2.4
IMPROVED MAJOR-BUILDING SECURITY	2.5
PREPARATION FOR LARGE-SCALE CASUALTIES OR DESTRUCTION	5.0
PROTECTING CRITICAL INFRASTRUCTURE	8.8
STRENGTHENED BORDER DEFENSES	10.0
INCREASED DOMESTIC POLICING	10.0

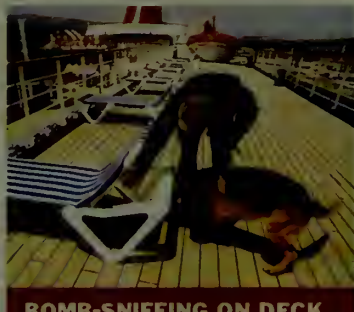
*All figures except the first item are increases over pre-September 11 budget proposals. Port security is an annual amortized cost. Data: Brookings Institution



GUARDING A NUKE PLANT



SIGNING OFF ON CARGO



BOMB-SNIFFING ON DECK

rates for insurance. With sports facilities considered a high risk for terrorist acts, property and liability premiums for Miller Park, the Milwaukee Brewers' stadium, soared from \$255,000 last year to \$2.25 million in 2002. Landmarks like the Golden Gate Bridge are going without any coverage, hoping that Congress will soon end its deadlock on terrorism insurance. "It's a political calculation," says Insurance Information Institute economist Robert Hartwig. "People are assuming the bill will be sent to Washington...if their property is destroyed."

COMMUNICATIONS

How about telecom and the information backbone? Thanks to a celebrated noncrisis—the Y2K scare—many companies have already gone a long way toward backing up and decentralizing



the difference between what you think your pricing strategies deliver and what they really do.

On average, a 1% pricing improvement yields an 11% increase in profits.
Learn how you can take advantage of market opportunities and turn pricing
improvements into big profitability gains.

Register today for the webinar featuring **Robert DeSisto of Gartner Research**, presented
by **Selectica** in association with the **Professional Pricing Society**.

Webinar: Pulling the Profitability Lever, June 20, 2002

10:00 pm Eastern time 1:00 pm Central time 11:00 am Pacific time

Register today at www.selectica.com

Sponsored Analyst from:

gartner
Thought for the connected world

 **PROFESSIONAL
PRICING SOCIETY**
www.pricingsociety.com

 **SELECTICA®**
THE INTERACTIVE SELLING SYSTEMS COMPANY

© 2002 Selectica. All rights reserved. All other trademarks
are the property of their respective owners.

COMMENTARY

By Michael J. Mandel

MORE PRODUCTIVITY, MORE PROFITS



the economic slowdown and the terrorist attack. Contrast that to the productivity gains of only 1.2% annually during the recession years of 1990 and 1991. Even with the tech bust, moreover, corporate spending on technology equipment and software is 75% higher today than it was in 1995. That means tech investment by companies is still strong enough to push productivity higher.

Of course, just because productivity did well in the past few years doesn't mean it will continue to do so. It is still quite possible that those good productivity numbers could be revised down sharply. In the years ahead, moreover, the high cost of military and anti-terrorist spending could siphon away resources that otherwise would go to productivity-enhancing investment. That could hold down gains.

However, another argument that productivity will remain strong is emerging from the improving corporate profits picture.

How so? The ability of companies to boost profits depends on three things: how high they can lift their prices, how much they can increase output per worker, and how fast wages are rising.

When it comes to increasing prices and holding the line on wages, companies have been fighting an uphill battle since the downturn started. Pricing power has been virtually nil, with business able to boost prices by only 0.5%. At the same time, wages have been soaring, with the employment cost index, adjusted for inflation, up by about 3%.

As a result, reported profit numbers have been tepid at best. *BusinessWeek's* profit scoreboard for 900 large companies (May 20) calculated that reported profits fell by 2% in the first quarter of 2002 from a year earlier. On May 24, the Bureau of Economic Analysis reports several different estimates of corporate profit growth, ranging from up by 4.6% versus a year ago to down by 17.3%, depending on how the government adjusted for depreciation and taxes.

But while the overall numbers remain weak, *BusinessWeek's* first-quarter scoreboard shows that companies have been able to boost their profit margins. For example, outside the volatile oil and gas sector, profits as a percentage of sales rose from 4.7% to 5.3%. By the government's figures, profits per unit of output—another measure of profit margins—have been rising as well. While these margins are still nowhere near the peak levels of the 1990s, the magnitude of the increase is an encouraging sign that the productivity growth is real.

Indeed, a rise in profit margins in the mid-1990s was one of the main signs that Fed Chairman Alan

Greenspan used as evidence that productivity growth had increased even though the rise has not yet shown up in the official government statistics. "Profit margins remain high," Greenspan told Congress in July, 1997, "suggesting that businesses continue to

find new ways to enhance their efficiency."

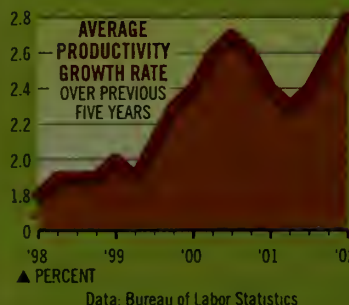
The emerging consensus on productivity is summed up nicely by a recent paper from Stephen D. Oline and Daniel E. Sichel, two leading economists at the Federal Reserve Board. They argue that the economy can maintain productivity increases

Trying to predict how fast productivity will rise is one of the more difficult tasks that economists and investors can undertake. The U.S. economy has shown itself prone to sudden and unanticipated shifts in productivity growth, with big effects on the economy and the stock market. The rate of productivity growth fell without warning in the 1970s, ushering in a bear market and a long period of stagnation. Then the equally unexpected jump in productivity growth in the mid-1990s was followed by soaring stock prices and wages.

All of which means that when it comes to productivity, uncertainty is the norm. Still, there are plenty of reasons to be optimistic that productivity growth will remain strong based on the information we have today. Indeed, some tentative signs are already emerging that productivity growth could be on the upswing in coming years and may be closer to 2.5% a year, rather than the 2% long-term annual rate that most economists expected just a few months ago.

One piece of evidence: Despite the recession, average productivity growth over the last five years was around 2.9%, the best five-year period since 1968. In addition, companies have been able to sustain their gains during the recession. Since early 2001, productivity has risen at around a 3.5%-to-4% rate despite

THE NEWS KEEPS GETTING BETTER



SHARP®

Liquid crystal television **AQUOS™**

A photograph of two children jumping on a bed with white sheets. The child on the left is wearing blue patterned shorts, and the child on the right is wearing blue and white striped shorts. The scene is captured from a low angle, emphasizing the height of the jump.

be spirited

©2001 Sharp Corporation



Introducing Aquos, inspiring flat-panel, liquid crystal television. Crystal-clear image quality. Outstanding brightness. And a screen that's merely 2.5 inches thin. Aquos by Sharp. It's what TV will be. sharp-usa.com

be sharp™

of somewhere between 2% and 2.75% per year. That "puts us squarely in the camp of those who believe that a significant portion—and possibly all—of the mid-1990s productivity resurgence is sustainable," Oliner and Sichel write. Martin N. Baily, a productivity expert at the Institute for International Economics who formerly served as chairman of the Council of Economic Advisors in the Clinton Administration, now estimates the trend growth rate of productivity to be 2.5% annually.

Of course, there are some big differences between the mid-1990s' productivity surge and today's. Back then, companies had more ability to raise prices. Moreover, real wages were barely rising. During the years 1995 and 1996, real compensation per hour in nonfinancial companies actually fell. As a result, productivity improvements in the mid-1990s dropped directly to the bottom line.

This time, rising real wages are absorbing much of the productivity gains. *BusinessWeek* estimates that if real wages had been flat over the last two years, corporate profits would have been boosted by about \$145 billion, or 20%. The implication? Even if productivity does rise at a 2.5% rate in the coming years, wage gains will keep profits from exploding.

Still, higher productivity should translate into enough profits to fuel capital investment and another wave of growth. Moreover, such a half-point increase in productivity growth, if it holds for the next five years, would mean that gross domestic product in 2007 would be roughly \$300 billion higher than with 2% productivity growth. With federal taxes taking about 20% of GDP, tax revenues would be about \$60 billion higher, and any budget deficit would be less of a problem.

Higher productivity growth, of course, is no sure thing. As the saying goes, past results are no guarantee of future performance. Increasingly, however, the prospects for more solid gains to come are looking better.

Chief Economist Mandel has written extensively on productivity.

THE ECONOMY

THE GOLD BUGS ARE LIGHTING UP

Prices may keep rising as inflation lurks and the dollar swoons

With regional conflicts, deficit spending, a declining dollar, and hints of inflation on the rise, investors are rediscovering an old standby—gold. From a low of \$257 an ounce just over a year ago, gold has jumped 27%, to \$327 an ounce, as of May 29—a level not seen since the fall of 1997.

For gold bugs, the sharp climb is vindication. During much of the '90s, the dollar and Treasury securities posted superior returns, as central banks worldwide dumped the mineral in exchange for those assets. Gold fans saw only short-lived spikes. In 1999, investors bid gold above \$325 on the prospect of more orderly selling by central bankers, but that price proved unsustainable as the dollar continued to rise.

This time, the increase could be more lasting as forces push the dollar lower. The Bush Administration may end this fiscal year with a \$100 billion-plus deficit. That and concerns about the economic recovery's sustainability have helped drive the dollar down 7% against other major currencies since January. "The dollar has entered a long-term bear market," argues Donald G. Coxe, chairman and chief strategist of \$17 billion Harris Investment Management in Chicago. His prediction: Gold could hit \$350 this year.

Inflation signs are also driving gold prices. Consumer prices have already climbed at an annualized rate of 3.8% in the first four months, up from a 3.5% rate in the year-ago period. Gold bugs fear the rate could rise higher if the Federal Reserve continues to spur the economy with low interest rates. Investors are apt to turn to gold when they can't make gains on short-term investments such as Treasury bills, after

adjusting for inflation, says North Trust Chief Economist Paul L. Kar

Indeed, investors may have few choices. Equities markets worldwide are drifting sideways. Japanese investors are facing deflation at home and currency losses on U.S. investments, are flocking to gold. "We might be reverting back to some level of interest in hard assets rather than paper assets," says J.P. Morgan Securities analyst John Bridge.

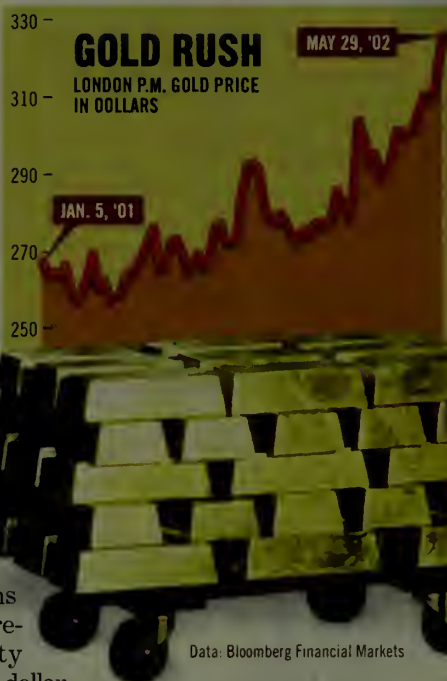
Increasing political instability also may be playing a role. Some hoarding has been reported in the heavy gold-consuming nation of India and Pakistan, where leaders are threatening terrorism in the Middle East and the U.S. is far from contained. And a U.S.-led war against Iraq adds to the uncertainty.

Moreover, gold production is down, putting a cap on supply. "There is a very new mine in the U.S. to build, but it will cause the level of exploration spending has been so low for the past

five years," says Randall Oliphant, president of one of the world's biggest mining companies, Toronto-based Barrick Gold Corp.

Still, there are forces that could limit gold's climb. It performs best when inflation is a serious worry, but most economists believe the Fed will keep prices firmly under control. And if U.S. growth continues to surprise on the upside in the first quarter, that could bolster the dollar. One thing seems certain: Gold won't get near the heights of 1980 anytime soon, when global instability and stagflation pushed the price to \$850 an ounce. But for investors who bought gold's recent low, there may still be plenty of room to run.

By Joseph Weber in Chicago



I love dissecting humans.

Eileen Cuesta

LIBERTY MUTUAL FIELD INVESTIGATOR



BUSINESS



AUTO



HOME



LIFE

It's my job to be an excellent judge of character...to determine when someone is telling the truth and when they're committing insurance fraud. Of course, most people are honest, but the ones that aren't cost businesses and workers \$25 billion a year. That's why I'm available at a moment's notice to throw my gear in the trunk and discover the truth. I talk to witnesses, follow tire tracks down muddy roads...whatever it takes to make sure the good guys, and the bad ones, get exactly what they deserve. //



IT'S MORE THAN INSURANCE. IT'S INSURANCE IN ACTION.

Consider forming an in-house safety team in order to evaluate and record accidents as they happen. Also, report accidents immediately to insure accuracy.



Liberty
Mutual

INVESTIGATIONS

CORPORATE PROBES: A SCORECARD

With so much happening, it's getting hard to keep up

Lately, you can't open a newspaper without reading about the Securities & Exchange Commission launching a new investigation of another company or industry. From Enron to Edison Schools, from hedge funds to Wall Street analysts, the list of players under SEC scrutiny just keeps growing. Indeed, with 64 accounting and financial-reporting cases opened in the first quarter alone—more than double the year-earlier total—following all the action is a full-time job. To make things easier, here's a scorecard on the players and the issues under investigation:

ACCOUNTING

ARTHUR ANDERSEN

■ Destruction of documents relating to its audits of Enron and allegations of shortcomings in its audits of Enron, Global Crossing, Qwest, and WorldCom. Criminal trial under way on obstruction of justice. Andersen denies wrongdoing.

DELOITTE & TOUCHE

■ Deloitte's audits of Adelphia Communications and its failure to tell Adelphia's audit committee that the founding Rigas family used company credit lines to buy Adelphia stock. Deloitte says it met professional standards.

ERNST & YOUNG

■ Marketing agreement to sell software with PeopleSoft, an auditing client, may violate auditor independence rules. The SEC wants E&Y to give back PeopleSoft audit fees paid between 1994-2000. E&Y



is fighting the charge. The SEC is also scrutinizing the firm's audits of companies such as Computer Associates and PNC Financial Services.

KPMG

■ KPMG's failure to catch alleged revenue-inflating maneuvers by

Xerox, an audit client. KPMG denies wrongdoing. Also, the accounting firm's \$25 million investment in the AIM mutual fund, an audit client, allegedly in violation of auditor independence rules. Without admitting fault, KPMG agreed to take steps to avoid future investments in audit clients.

PRICEWATERHOUSE COOPERS

■ PwC's audits of MicroStrategy, which settled SEC charges of financial fraud in 2001 for overstating revenues without admitting fault, are still under investigation.

ENERGY

CMS ENERGY

■ Round-trip trades with other energy wholesalers that allegedly overstated revenues by \$1 billion in 2000 and \$4.2 billion in 2001. The Justice Dept., Commodity Futures Trading Commission, and the Federal Energy Regulatory Commission are also investigating.

DYNEGY

■ Round-trip trades that allegedly inflated revenues. Also, a natural gas transaction that allegedly made cash flow from operations appear larger than it was.

ENRON

■ Widespread alleged abuses of accounting and disclosure rules to profits. Ongoing probes by the SEC Justice Dept. task force.

HALLIBURTON

■ Accounting policies that treated overruns on construction jobs as revenue regardless of whether its customers to pay part of the overbudget costs. Halliburton says it stands by its accounting.

RELIANT RESOURCES

■ The energy trader's restatement of earnings for two quarters in 2001 determined that some derivative transactions accounted for as cash hedges should have been valued at market price.

SOFTWARE

COMPUTER ASSOCIATES

■ Overstating revenues in 1999 allegedly inflated its stock price before and after the awarding of stock to three top managers. SEC and Justice Dept. investigating.

NETWORK ASSOCIATES

■ Alleged accounting inaccuracies that may have understated earnings and overstated revenues in 1998-1999.

TELECOM

CROSSING
swaps allegedly done with
ers for the purpose of
venues. Ongoing SEC and
pt. investigations.

TECHNOLOGIES

\$679 million in
rom sales to its
ors before the
ors were able to
sell the products.



COMMUNICATIONS

ity swaps with other carriers as
quipment sales to customers in
or Internet services, both
y designed to inflate revenues.

COM

unting practices, including
ent of goodwill, and company
taling \$408.2 million to former
ernard Ebbers. WorldCom
s its accounting.

WALL STREET

UIT SUISSE FIRST BOSTON

B's allocation, as lead underwriter,
res of hot IPOs to customers in re-
or allegedly excessive commissions
her trades. Similar practices alleged
P. Morgan Chase, Morgan Stanley
Witter, Goldman Sachs, and other
tment banks under investigation.
B agreed to pay a \$100 million fine to
National Association of Securities
ers and to change how it allocates
shares, without admitting fault. The
ers are cooperating with the probe.

HEDGE FUNDS

ncidents of fraud, conflicts of interest
rms that manage both hedge funds
mutual funds. The SEC is
nsidering the need for regulation.

iCAPITAL MARKETS

■ Alleged illegal trades that iCapital,
formerly Datek Securities, made for its
own account through Nasdaq's small-
order execution system from 1993-1998.
Investigation settled after iCapital
Markets agreed to pay a \$6.3 million fine,
without admitting fault.

MERRILL LYNCH

■ Alleged conflicts of interest for
research analysts who work alongside
investment bankers. Merrill agreed to
pay \$100 million in a May 21 settlement
with New York Attorney General Eliot
Spitzer without admitting wrongdoing.
SEC probe is ongoing. Other brokers,
including Morgan Stanley and Goldman
Sachs, are also being investigated by
the SEC, as well as by state officials.

OTHER INDUSTRIES

ADELPHIA COMMUNICATIONS

■ The cable-TV operator's alleged
failure to adequately disclose \$5.6
billion in loan guarantees to the family
of founder John Rigas. SEC and two
grand jury investigations are ongoing.

EDISON SCHOOLS

■ For-profit operator of public schools
didn't disclose that nearly half its
revenues consisted of funds that school
districts paid directly to teachers and
vendors. Edison agreed to add a director
of internal audit, without admitting fault.

KMART

■ Accounting for vendor discounts and
other transactions that allegedly
underreported 2001 losses by at least
\$1.7 billion. SEC probe is ongoing; FBI
and Justice are also investigating.

PNC FINANCIAL SERVICES

■ Both the SEC and Federal Reserve
are investigating the Pittsburgh bank's
accounting treatment of three

companies it set up with insurer
American International Group to hold
corporate loans PNC wanted off its
balance sheet.



TRUMP HOTELS

■ Allegedly misleading statements in a
1999 press release that suggested the
company's positive results were due to
operations rather than a one-time gain.
Without admitting or denying guilt,
Trump consented to an SEC cease-and-
desist order.

WASTE MANAGEMENT

■ Founder and five former top officials
allegedly used fraudulent accounting to
inflate profits by \$1.7 billion between
1992 and 1997. The SEC filed suit in
March, charging the ex-execs with
falsifying and misrepresenting the com-
pany's results. They deny the charges.

XEROX

■ Accelerated
recognition of
lease and
servicing
revenues in a
scheme that allegedly inflated
revenues by \$3 billion from 1997-2000.
SEC settled with the copier maker in
April, imposing a record \$10 million
fine. Xerox agreed to restate earnings
for 1997-2000 and form a panel of its
outside directors to review
accounting policies and practices
without admitting guilt.



*By Amy Borrus, with Mike McNamee,
in Washington, and Susan Zegel in
New York*

Data: Company reports, SEC Filings, SECA

INVESTIGATIONS

THE STREET'S NEW CLEANUP CREW

States go after city-slicker firms

In his seven years as director of Utah's Securities Div., S. Anthony Taggart has gone after Ponzi schemes and penny-stock hucksters. But he has never given much thought to Wall Street. That's about to change. In the wake of New York Attorney General Eliot Spitzer's May 21 settlement with Merrill Lynch & Co., Taggart is part of a 40-state probe into how the conflicts of interest between brokerage firms' research and investment banking divisions affect investment advice. He has been tapped to lead the investigation of Goldman, Sachs & Co., one of the most sophisticated securities firms around.

How did someone who readily admits he knows little about Wall Street end up with this assignment? "It was more coincidence than anything else," he admits. "The bigger states wanted the firms better known to small investors."

That haphazard approach has Wall Street worried as the states launch their most extensive securities probe ever. Officials scattered around the country, with vastly different goals, motives, and investigative capabilities, will scrutinize 12 of the largest brokerage firms and pore through millions of their internal documents. The states' goal: to determine if analysts at firms besides Merrill are recommending stocks to attract investment banking deals.

The problem? Wall Street execs fear that a cacophony of accusations coming from statehouses could continue to sully their already tarnished image. They also fret that the disparate probes could lead to a hodgepodge of state regulations. "There are broader policy questions here," says a lawyer for one Wall Street house. "These are national markets, and there ought to be a national approach."

Yet that worry may be overstated. One securities official close to the investigations says that the states are



THE OUT-OF-TOWNERS' DRAWBACKS

Some 40 states are probing a dozen Wall Street firms. Will the investigations result in an effective crackdown or a logistical mess? Among their major hurdles:

LACK OF EXPERTISE

Few state officials know much about Wall Street. They head commissions designed to prosecute small-time stock fraud.

WEAK COORDINATION

Organizing the probe, which involves millions of documents, will be a huge logistical task.

DIVERGENT GOALS

Each state has its own agenda and its own view of what's wrong with Wall Street. That could make it tough to agree on the scope of the probe and on appropriate penalties.

more interested in wringing out fines than forcing structural changes or setting new rules for the industry. When the states formed a task force to tackle the analyst issue, one of its first tasks was coming up with a formula for

divvying up the funds Merrill and future settlement.

The Securities & Exchange Commission has its grip well. In theory, the states could be of assistance in a vast probe. But Chairman Harvey L. Pitt appears more than thrilled to share his. Pitt says he's willing to work with the states, but so say the SEC chief doesn't want the states to dictate the

come. The SEC has already adopted new rules that attempt to reduce conflicts by, for example, not allowing analysts to be paid directly for work on investment banking.

Pitt's message, says a former enforcement official, is "bug off." given the widespread public perception that the SEC has not been tough enough on Wall Street and is lagging Spitzer in investigatory zeal, the states are likely to take his advice unless Washington takes a more aggressive stance.

The states insist they can avoid regulatory Babel. "There's this confusion that we are going to have 25 or 30 different sets of rules," says Indiana Securities Commissioner Bradley W. S. "That's clearly not our intent." He says the Merrill settlement will serve as a template for other firms.

Indeed, that's already happening. Wall Street firms have been quick to make a public show of cooperation only to head off stiffer measures. Some firms are voluntarily adopting changes along the lines of the Merrill settlement—and even grudgingly praising Spitzer. Credit Suisse First Boston's John J. Mack called Spitzer's work a positive step forward for our industry in a May 24 memo to employees. J. P. Morgan Smith Barney simply announced it was adopting the Merrill settlement. Goldman named former New York Federal Reserve Bank President E. Gerald Corrigan as a research ombudsman. His job: making sure that analyst recommendations are conflict-free. An Goldman spokesman says the firm welcomes the Utah probe.

For now, the states have the upper ground. After all, it was Spitzer, not the SEC, who unearthed evidence that Merrill analysts were privately deprecating the shares of companies they were publicly recommending. Like it or not, Wall Streeters may be spending a lot of time with folks from places like Salt Lake City, Sacramento, and Des Moines.

By Dan Carney, with Michael McNamee, in Washington and Eric Thornton in New York



CUSTOMERS TRUST YOU TO MAKE YOUR PRODUCT SAFE.

WHO DO YOU TRUST?



The UL Mark of Safety instantly communicates to consumers, retailers and regulatory authorities your commitment to the highest levels of safety. They know that by choosing the market leader for product testing and certification, you're leaving nothing to chance. More than 64,000 manufacturers share the same trust and confidence in selecting UL, recognized worldwide for both independence and integrity. Since 1897, UL has helped companies manage risk and build customer loyalty. Join with other leading safety-conscious manufacturers by making UL an integral part of your product planning and development.



**Working for
a safer world**

www.ul.com

©2002 Underwriters Laboratories Inc

LEGAL AFFAIRS

WHEN YOU WANT TO SUE —BUT CAN'T

Stung by lawsuits, more service providers insist on arbitration

Traveling salesman Matt Moraca lives on his cell phone. So last year, when Alltel Corp. offered him wireless service for much less than he had been paying, the St. Petersburg liquor wholesaler jumped at the deal. But within months, Alltel had jacked up his \$49-a-month bill by \$10. When Moraca threatened to sue, Alltel pointed to the fine print in his contract. It required him to settle all disputes by arbitration. Outraged, he sued anyway; his suit is pending. "What's to stop them from raising my rates \$10 every month?" he says.

Moraca is in good company. While the securities industry has long obliged its clients to use arbitration, the practice is spreading rapidly. From AT&T and credit-card giant MBNA Corp. to mortgage lenders such as Country Wide Home Loans, more and more consumer companies and employers are turning to arbitration to avoid costly litigation. Essentially, they have decided to take tort reform into their own hands by forcing customers or workers to sign away their rights to go to court.

It's a shift that has drawn plenty of critics. Fearful that arbitration is depriving consumers of their legal rights, some have begun to challenge the arbitration clauses in court. "I'm a lifelong Republican, but forced arbitration is the most corrupt thing I've seen in the practice of law," says John O'Neil, whose Houston law firm has filed suits against corporate arbitration clauses.

Still, the challenges are unlikely to slow arbitration's spread. While no one knows exactly how much the practice has grown, the American Arbitration Assn., the industry leader, says it alone arbitrates employment disputes at 600 companies covering 5 million employees. Its caseload is growing 10% annually, with nearly 2,000-plus settlements last year.

Several factors account for the jump.

Companies say they're turning to arbitration to protect themselves from skyrocketing legal costs. With class actions and other suits on the rise, companies' costs are way up, even if they win in the end. Restricting disputes to arbitration reins the costs in considerably.

IS FORCED ARBITRATION FAIR?

A recent explosion in its use has raised objections. Critics contend:

- ▶ It often favors corporations, because they generally pay the costs and the arbitration panels are often staffed by industry insiders
- ▶ Decisions aren't bound by state and federal laws, so arbitrators don't have to follow existing legal precedent
- ▶ Arbitration discourages legitimate class actions when individual damages are too small to warrant separate litigation

Arbitration proponents also argue that it simplifies dispute resolution. The American Bar Assn. found in a recent survey that 75% of all consumers have no access to the courts. Either they can't afford a lawyer, or they don't understand the legal system. "Arbitration lets people process smaller claims than a lawyer would ever take on," says India Johnson, American Arbitration's senior vice-president.

But critics contend that arbitration clauses actually discourage legitimate class actions. That's particularly true in situations similar to that at Alltel, where each person's damages may be too small to warrant individual litigation. Says St. Petersburg trial lawyer Kathleen Ford: "Businesses use arbitration to lock the door of the courthouse to consumers."

Or take the case of Sears, Roebuck & Co., which paid nearly \$300 million in 1997 to settle class actions stemming from federal and state charges that it il-

legally collected debts from bank credit-card holders. Two years later, the company began adding an arbitration clause to its contracts, which prevents class actions or other litigation to resolve disputes. A spokesman says the settlement and the new clause are unrelated.

Critics also question the impartiality of the process. Companies tend to choose arbitrators who are industry executives and insiders. Very few are judges or lawyers. Arbitrators are paid by the companies for employment disputes. "Companies don't hire back arbitrators who consistently rule against them," says Charles Craver, a law professor at George Washington University.



Moreover, overturning an arbitrator's decision is tough. Such rulings are often made orally and without explanation. Nor are arbitrators bound by existing state or federal law. Since their decisions have no precedential force, arbitration rulings are rarely overturned. Still, challenges to arbitration are growing. In San Francisco, plaintiff Darcy Ting persuaded a federal district court to stop AT&T from using forced arbitration to impose changes in her long-distance contract. The judge blasted AT&T's arbitration clause as "illegal and unconscionable." Given the rapid growth of arbitration, watch for such challenges to multiply as well.

By Charles Haddad and Aixa Pascual in Atlanta

THE FINE PRINT
Moraca found that his Alltel agreement ruled out litigation



ix days. Anywhere. On us.

...e giving away a Trip a Day to any Hilton HHonors® location worldwide. Airfare included.

...s right. We'll choose a winner each day to win a 6-day, 5-night trip for two to any

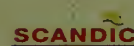
...on HHonors destination in the world. That's over 2,300 places to choose from. If you are a

...ber staying in an HHonors hotel on a Double Dip® stay between June 1 and September 30, 2002,

...could win. The more Double Dip stays you have during this time period, the more chances you

...to win! And, if you win, your trip can be taken any time before December 31, 2003. To learn

...about how to enter, enroll in Hilton HHonors or make reservations, go to hiltonhhonors.com.



Prize necessary to enter. Void where prohibited by law. You must be age 18 or older, a legal resident of the 50 United States (excluding Florida) and the District of Columbia, or a resident of Canada (excluding Quebec) or a resident of the United Kingdom or Germany who is, as of June 1, 2002, over the age of majority in your province of residence to enter. Sweepstakes begins on June 1, 2002, and ends on September 30, 2002. For a copy of the Official Rules, go to www.hiltonhhonors.com or send a self-addressed stamped envelope to: Hilton HHonors® Trip A Day Giveaway Sweepstakes, c/o Roth Graham, Inc., P.O. Box 270090, Minneapolis, MN 55427-6090 USA. Hilton HHonors membership and redemption of points are subject to HHonors Terms and Conditions. ©2002 Hilton HHonors Worldwide.

COMMENTARY

By Catherine Arnst

PATIENCE, BIOTECH INVESTORS, PATIENCE

Samuel D. Waksal's resignation on May 22 as CEO of embattled biotech firm ImClone Systems Inc. has done nothing to bolster the company's stock. In part, that's because he was replaced by his brother, Dr. Harlan W. Waksal, formerly the COO. Switching one Waksal for another hardly signals a significant change, since both were responsible for the problems that led to the Food & Drug Administration's rejection of their experimental cancer drug, Erbitux. More important, though, investors remain concerned about the drug itself: ImClone's stock, which was at 25 on Apr. 1, has been hovering near 10 ever since the latest Erbitux results were released May 19.

The decline may seem surprising given that the news wasn't particularly negative. But it wasn't all positive, either, and ambiguous results for cancer drugs almost always spark a sell-off. That's unfortunate for the biotech industry, since most results are mixed.

ImClone's latest troubles are also a sign of the disconnect between scientists and investors. The researchers attending the mid-May American Society of Clinical Oncology meeting were encouraged by the same results that sent numerous stocks spiraling down. "We are getting a much better understanding" of how to treat the disease, says Dr. Larry Norton, a leading breast-cancer specialist at Memorial Sloan-Kettering Cancer Center in New York. Oncologists, he says, see the new compounds as one more weapon in their limited arsenal against cancer.

So why the disappointment on Wall Street? Investors want to see cures, or at least potential blockbusters, and many biotech execs have not been shy about promising

to deliver such goods. But progress in medical science is incremental, and cancer is a particularly tough disease to crack. To truly understand the research, investors will have to get their minds around nuance. "When I try to explain the significance of the clinical-trial data to clients, I tend to get blank looks," says Sanford C. Bernstein & Co. analyst Catherine J. Arnold. "There are so many variables you have to understand before you can decide if a study is positive or negative." Besides, one study is rarely enough to make—or break—a new drug.

Take AstraZeneca PLC's Iressa, a potential competitor to Erbitux. Data released at ASCO showed the drug reducing tumors in 10% of lung-cancer sufferers. "These results are as good or better than other medicines that have been tested in a comparable group of patients," said Dr. Mark Kris of Sloan-Kettering. But some investors were disappointed that the

results weren't as strong as those in an earlier trial in which 18.7% of patients had tumor shrinkage. In the second trial, however, the patients were much sicker, so getting a response at all is significant.

Shareholders are looking for oncology's version of a home run: proof that a drug can prolong life. But experimental drugs are tested on only the sickest patients. Against such a advanced disease, doctors are happy to shrink the tumor because it's proof that the drug has an effect. They are hopeful that the same drug given to patients early on would bring greater benefits.

The latest data on Erbitux demonstrate just how tough it is to prolong life. A 123-patient trial against head and neck cancer, funded by the National Cancer Institute, found that Erbitux combined with chemotherapy shrank tumors in 23% of patients, compared with 9% of those on chemo alone.

However, the trial was meant to measure survival, and

that score, Erbitux failed. Patients receiving the drug lived an average of 9.19 months, almost the same as the 7.96 months for the chemo-alone group. "This didn't prove the drug doesn't work," said lead investigator Dr. Barbara Burtness of Yale University. "Everyone involved is motivated to continue studying it."

Both Iressa and Erbitux represent progress against cancer for which there are no effective drugs. But neither is likely to be a magic bullet. Shareholders and executives alike might be better off setting their sights on a treatment for cancer, not a cure.

Scientists want to see progress, but Wall Street wants to see blockbusters



Arnst covers science from New York

Fits your pocket.
And your life.



The DiIMAGE X—the world's smallest, lightest,
thinnest 3X optical zoom digital camera.*

To make the Minolta DiIMAGE X small enough to go anyplace you go, we had to bend the rules of conventional optics. At a mere 3/4 inch thick, the X has a superb 6X zoom (3X optical) lens that goes from wide angle to telephoto *without leaving the inside of the camera!* Now you'll be able to take amazing pictures, with eye-popping detail and clarity, where before you probably wouldn't even have taken a camera. Only from Minolta.



DiIMAGE X

*Among digital cameras with 3X optical zoom, as of 1-1-02.

The essentials of imaging

www.minoltausa.com



MINOLTA

EDITED BY MONICA ROMAN

MICROSOFT'S PASSPORT PROBLEM

IT'S ANOTHER EUROPEAN headache for Microsoft. Privacy regulators in Brussels have launched an investigation into Microsoft's Passport service. Netizens sign up for Passport to gain access to dozens of e-commerce and game sites without having to enter passwords each time. But Europeans say the service may violate stringent data privacy regulations in the Old World. Brussels may push to make it easier for Passport customers to protect and manage their personal data and to unsubscribe from the service. Such changes could complicate the rollout of Microsoft's .Net strategy, a sweeping gambit designed to make disparate Web sites communicate with one another and with programs on personal computers. Microsoft says Passport adheres to European data privacy standards.

CLOSING BELL

FUZZY PICTURE

Shares of cable-TV operator Adelphia Communications fell 42%, to \$1.16, on May 29 amid rumors it was running out of cash. Coudersport (Pa.)-based Adelphia is negotiating with lenders for \$1 billion in equity infusions and wants to sell cable systems with nearly half its 5.3 million subscribers.



RECALLING ALL BMW 7 SERIES CARS

IT'S NOT WHAT SOMEONE WHO has shelled out \$60,000 or more for a car wants to hear: BMW is recalling the 17,000 7 Series sedans it has sold so far to check the electronic fuel pumps and throttle valves. In a few cases, problematic pumps cut the flow of gas to the engine, causing the cars to stall. Such recalls are commonplace, and this one will cost BMW only \$3 million. But it's embarrassing for the Bavarian carmaker, which launched the 7 Series in November. The car was chosen Best Engineered Car of 2002 by *Automotive Engineering International* in March. But so far it is off to a bumpy start.

TYCO: STILL TRYING TO UNLOAD CIT

TYCO INTERNATIONAL'S EFFORTS to obtain the highest price for its finance arm, CIT, were dealt a setback on May 24, when Lehman Brothers withdrew a \$5 billion bid. Tyco insists it remains "on track" to sell CIT either to a third party or through an initial public offering by the end of June. Tyco must move quickly both to raise cash and restore CIT's access to the commercial paper markets. But few observers believe Tyco has much hope of getting the \$6.5 billion it initially suggested for an IPO. Even that would be far below Tyco's \$11.3 billion investment in CIT, acquired last June.

THE FCC DIALS DOWN AN AIRWAVE AUCTION

THE FCC HAS PUT THE BRAKES on a controversial airwave auction scheduled for June 19. Congress had ordered the sale of licenses for spectrum now occupied by TV broad-

HEADLINER: CHARLES WATSON

ENERGY CRISIS

AFTER BUSINESS, CHARLES Watson's greatest passion is sports. He owns a minority stake in the National Football League's new Houston franchise and controls a minor-league hockey team. Watson, 52, will now have more time to spend rooting for his teams. On May 28, the co-founder, chairman, and CEO of Dynegy resigned under board pressure amid a scandal over sham trades, probes by regulators, and pressure on its stock and debt ratings. Watson's resignation came four days after William McCormick Jr.

quit as CEO of rival CMS Energy, which admitted doing sham trades with Dynegy, Reliant Resources, and other

And more head energy could r

A top contender to replace Watson is Dynegy President and COO Stephen Bergstrom, who helped Watson build the company

during the past 17 years. Dynegy director Glenn Tilton, vice-chairman of ChevronTexaco, which owns 26.5% of Dynegy, will be interim chairman. Board member Daniel Dienstblum will serve as interim CEO.

Stepha Anderson For



casters to take place in time for the U.S. Treasury to pocket proceeds this fall. But the big wireless phone carriers objected. They complain that broadcasters currently using the spectrum could force bidders to pay a big ransom to get them to move out quickly. The broadcasters must give up those airwaves once they migrate to digital transmission by 2006, or whenever 85% of U.S. households get digital TV. Since that could take years, the FCC opted on May 24 to go ahead with an auction of channels 52-59, where there are fewer broadcasters, while postponing the sale of licenses in higher channels.

XEROX GETS ITS FINANCE MAN

FILLING A VACANCY LEFT OPEN for nearly six months, Xerox has a new chief financial officer. Lawrence Zimmerman,

59, stepped into a big job May 28. The company, which recently settled a Securities & Exchange Commission case alleging accounting fraud in the late 1990s, still faces many challenges. A vital credit line has yet to close and Moody's recently downgraded the company's credit status. Its stock has dropped 64% in the past two years, from a recent \$9 a share. But Zimmerman is a veteran of corporate turnarounds. He spent 31 years at another blue-chip company, where he was forced to reinvent itself, which he left in 1998.

ET CETERA...

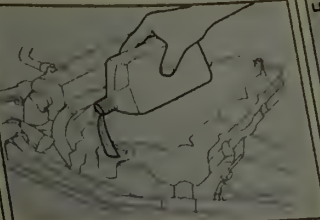
- Cisco's third-quarter earnings showed a 20% increase in cash and marketable securities reserve for doubtful accounts.
- Moody's lowered AT&T's debt to the second-lowest investment-grade rating.
- McDonald's is considering adding undisclosed non-menu items at its restaurants.

Boosting Mississippi's Economy.



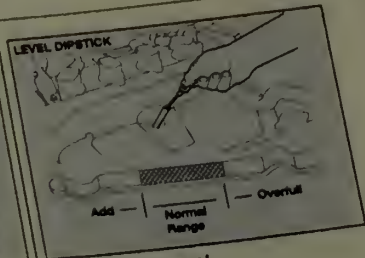
1. State-of-the-Art Plant.

Begin erecting structure
million square foot facility
state to build trucks, SUVs



2. Have Suppliers Pour Resources Into Local Economy.

Production suppliers like
Lextron/Visteon Automotive Systems.
Systems Electro-Coating and AJA
SouthStar Transport begin
constructing new facilities in order to
be closer to the plant.



3. Check New Level of Economy.

With the creation of thousands of
new jobs and over a billion
dollars injected into the region,
observe the economic levels increase.

Freedom

The new Aetna[®] believes that people should be free to choose the coverage that is best for them. Aetna HealthFund offers a new choice. It provides the comprehensive coverage

to choose.

of a traditional health plan, plus an employer-paid health savings account which allows members to choose the services they want. They can see any doctor. Go to any

America was built on it.

hospital. In or out-of-network. And any unused dollars in the fund can be carried over to provide additional plan coverage the following year. Aetna is the first full-service

So is our new

health insurer to offer a plan like it. New options and innovations for you and your customers. That's the new Aetna.

Aetna HealthFund.[™]



Turning Promise into Practice[™]

Health • Dental • Disability • Life • Long-Term Care

EDITED BY PAULA DWYER

WHY SENATOR CLINTON JUST CAN'T CATCH A BREAK

When Hillary Rodham Clinton arrived in the Senate in January, 2001, she brought along a master plan: end her image as a carpetbagger passing through New York her way back to the White House. She wanted to prove she could bring home the bacon for New York. She aspired to be a strong voice on national issues. Most of all, she hoped to be seen as a journeyman senator who immersed herself in legislation—not as a publicity-hungry prima donna.

But even her legendary discipline hasn't been able to keep her from going off track. Indeed, she finds herself in a familiar place for a Clinton: attracts heaps of criticism from both the Left and the right. The freshman senator remains a polarizing figure, which limits her ability to maneuver. Among New Yorkers, her support is lukewarm. The result: For the rest of her term, she is likely to focus more on pleasing constituents than becoming a national spokesperson for Democratic causes.

Although Clinton claims she wants to keep a low profile, stressing mostly parochial issues, she is still a political lightning rod. When resurfaced that President Bush had redacted intimations about a terrorist attack just before September 11, she took to the Senate floor to demand a fuller accounting. Other Democrats made more pointed criticisms, but White House Press Secretary Ari Fleischer rebuffed her out for disapproval.

That was no coincidence: Clinton helps the White House with its argument that Democrats are playing partisan politics. She is also the poster girl for GOP fund-raising. "She embodies everything Republicans don't like about Democrats," says Sen. G. Norquist, a conservative activist. Because of that, her role as a Democratic messenger will be circumscribed.

Even a mildly centrist shift can get Hillary in trouble. On May 21, Clinton's Washington home was picketed by liberal ac-

tivists. Their beef? Her decision to support a proposal to force welfare recipients to work 37 hours a week, up from the current 30. "Liberals thought she was their champion," says Eric Hauser, an antipoverty advocate. "To sign onto a bill that dramatically increases work requirements is incongruous."

But that could be part of a deliberate strategy. "Maybe she doesn't want to go too far to the left so as not to preclude national ambitions," says Jennifer Duffy, chief Senate analyst for the nonpartisan *Cook Political Report*. The criticism from liberals, however, may have left Clinton feeling burned. She insists she is not abandoning her core beliefs: By accepting tougher work requirements, Clinton says she persuaded the bill's sponsors to earmark more money for child care and to make federal funds available for legal immigrants. She also joined Senator Edward M. Kennedy (D-Mass.) in calling for increased funding and more flexible work requirements.

Moreover, a Presidential bid seems unlikely in the near term. While Clinton has raised more than \$1 million for her political action committee, she knows that running for national office would imperil her standing with New Yorkers, 47% of whom rate her performance as fair or poor, according to an April poll by the Marist College Institute for Public Opinion. "She can't so much as look in the direction of New Hampshire,"

says Lee Miringoff, director of the poll.

For now, Clinton is staying close to her home base—planning hearings on the mental health needs of New York children post-September 11, promoting nuclear security, and even keeping tabs on aides who help seniors get their Social Security checks. That might win more New Yorkers' hearts. But it won't free Hillary from the shackles that prevent her from leading her party's charge, let alone the national ticket.

By Alexandra Starr



CLINTON: Taking heat

ON THE RECORD

As Congress gets set to renew welfare reform, Senator Clinton is determined to be a player. But her support for a 37-hour workweek for welfare recipients, up from the current 30 and far above President Bush's proposed 40, has drawn the ire of social activists fuming. In a May interview with *Washington correspondent Alexandra Starr*, Clinton defended her position:

her goals for welfare reform:

The central issue is how to make work pay. In Stage Two, we need to provide incentives and supports so

that no American who works 35-to-40 hours a week is mired in poverty. I live in the real world. I got on the subway in the Bronx a few weeks ago and a woman came up to me who works seven days a week. She has two children at home, and she's working as hard as she can to build a better life. I want to help that woman.

On why she backs a measure that requires welfare moms to work more:

Under our bill, there is no increase in work hours unless there is \$8 billion more in child-care funding. It provides

new money for enhancing education and training. We require [states] to pay the minimum wage.

On compromising too early:

We're not in a theoretical discussion here. A bill has already passed the House, and it couldn't be worse. It's mean-spirited: It would actually turn the clock back. What I've learned in the last 15 months is that people who get in the debate early are going to be in the room when the decisions are made at the end, when it counts.

ASIA

COOL

How it roared back from disaster and became a model for Asia

Swing by the high-fashion enclave of Chongdamdong on any Saturday night, and you'll see the affluent twentysomethings of Seoul chattering away on their pastel-colored mobile phones. Chic Korean women float by, bedecked in Chanel, Hermès, and Gucci. Later on, the dance clubs throw open their doors, making the very sidewalks reverberate into the early hours. Everywhere, you see billboards and posters proclaiming the World Cup, which kicks off in Seoul May 31. The planet's biggest sporting event is an excellent excuse to throw a nationwide party. The question is whether the Koreans will notice: Their party has already started.

To foreigners who know the ravages that the Asian crisis inflicted on Seoul, it's hard to believe this is the same capital that sprouted tent cities and soup kitchens in 1998. Or the town that, for decades, maintained a rigid culture of conformity, drudgery, and xenophobia. Koreans are rubbing their eyes, too. When 47-year-old Eric B. Kim returned to Seoul in 1999—after 32 years in the U.S.—to head marketing for Samsung Electronics, he found that “the old hierarchy was gone.” Kim thought his two kids would find Korea stifling. Instead, they think it's almost as much fun as—brace yourself—Southern California and the East Coast, where they grew up. “Koreans,” says Kim, “are thriving on change.”

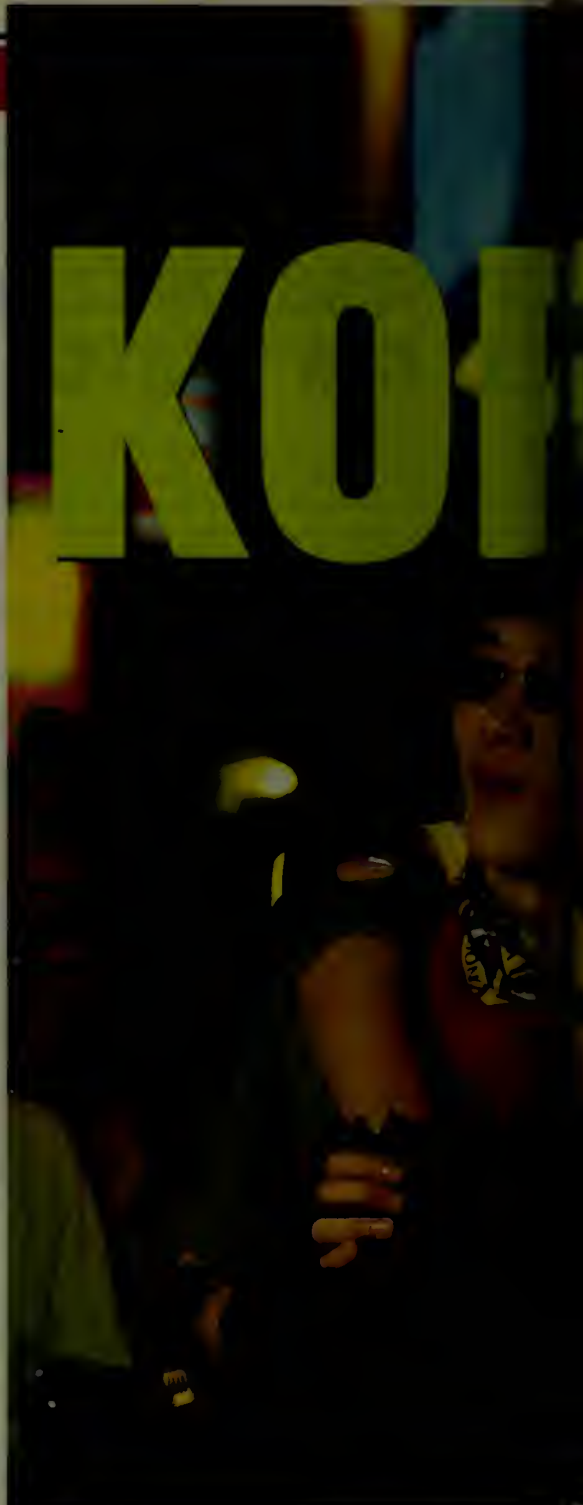
The changes have been pretty much nonstop since the economic trauma of 1998, when gross domestic product contracted 6.7%.

Today, Korea is back with a vengeance. Its economy grew 5.7% in the first quarter. Its phones, cars, and movies are prized around the world. Its citizens are riding a high verging on cockiness.

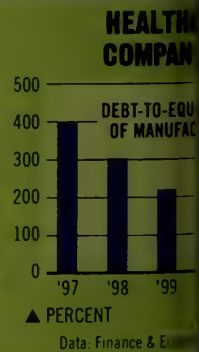
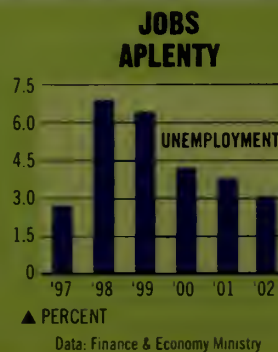
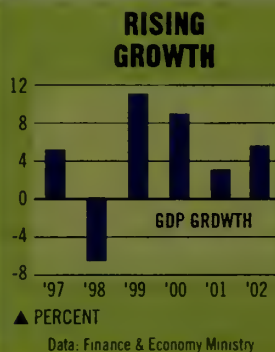
Dare we say it? Korea is cool. This country of 48 million has become a model for developing nations everywhere. Nowhere is this more true than in its home region, where Japan is a waning force and much of Southeast Asia continues to struggle with sick banking systems and dwindling foreign investment. The commentators may be right that the future belongs to China—and that Korea itself still needs to keep reforming. But Korea has already made the transition from authoritarianism to democracy and from a low-end, exporting economy sealed off from the world to one that is plugged-in, dynamic, and increasingly high-tech. It will be some time before China gets there.

Consider Korea's economic position: a budget surplus, \$107 billion in foreign-

currency reserves, a rising credit rating, and a jobless rate of 3.1%. The Korean stock market is among the best-performing in the world. Some \$52 billion worth of foreign direct investment has poured into the country during the past



KOREA BY THE NUMBERS





sense of how much has changed.

How did crisis-afflicted Korea transform itself? Most important, the government managed to cut the connection between the banks and the *chaebol*, the conglomerates that once ruled—some would say strangled—Korea.

Second, the Koreans fashioned a full-fledged domestic economy, a rare thing in Asia. Third, the trauma of crisis and change unleashed a wave of innovation in business and culture.

Much of this wouldn't have happened without President Kim Dae Jung. The longtime political reformer, who endured assassination attempts, jail terms, and years of exile, had been waiting half his life for the chance to lead his nation. When he finally made it to the presidency in 1998, Kim and his lieutenants realized that the crisis offered an historic opportunity to overhaul Korea's model. Says the President: "You have to endure until the structural changes are complete. In this age of globalization, you have to accept that only competitive companies survive."

Kim & Co. ordered the overextended, state-backed *chaebol* to go on a crash corporate diet, slash their debt, swap noncore businesses, and sell off others. "The *chaebol* served as a convenient whipping boy that could be blamed for the crisis," says

SEOUL HIP

A consumer-spending boom is powering the economy

Chung Hoon Mok, a former director of the World Bank, which, together with the International Monetary Fund, helped Korea with a \$30 billion bailout package. Using the IMF's demands for reform as political cover, the government pressured *chaebol* chieftains to cut their empires down to size. At the same time, the administration threw open the economy to for-



eign competition and investment.

Today, Korea's business landscape stands radically transformed. Of the 30 biggest *chaebol*, 16 have been shut down or radically downsized. The survivors—such as Samsung Group and LG—barely resemble their former selves. Of the 2,100 financial institutions cluttering the banking industry in 1998, just 1,600 are now standing. Of 24 major city banks, half remain.

INFO CRAZY

Koreans love to interact with companies via the Internet

With many of the *chaebol* gone, the newly vital banks had billions in capital freed up for new loans. Korean consumers and small businesses finally had the liquidity they so desperately needed. With banks free to lend to whomever they want, small and midsize startups have proliferated: Since 1998, 11,396 have popped up.

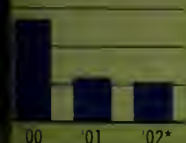
At the same time, banks are lending to consumers through credit cards and mortgages, setting in motion a spending boom that is giving the economy a healthier balance between exports and domestic-led growth. This new economy has already shown its strength: Last year, when the rest of Asia was flat on its back after the U.S. economy swooned, the Koreans chugged on, producing a respectable 3% gain in GDP.

The change in the way Koreans deploy capital seems to fit perfectly with a shift in the way Koreans think about themselves. The crisis unleashed pent-up entrepreneurial energy. The result: The most promising trends—the rapidly expanding information technology sector, a more fluid labor market, a better balance between export-led and home-driven economic growth—are being fueled by consumers instead of being orchestrated by bureaucrats.

Indeed, the whole notion of success

STRONGER BANKS

NONPERFORMING LOANS AS PERCENTAGE OF TOTAL

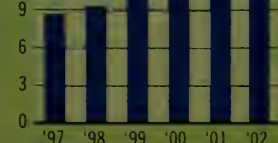


*FIRST-QUARTER FIGURES

Bank of Korea

TRIUMPHANT TECH

IT INDUSTRY AS PERCENTAGE OF GDP



▲ PERCENT

Data: Information & Communication Ministry

THRIVING SMALL BIZ

CUMULATIVE NUMBER OF STARTUPS

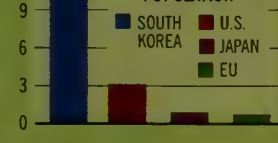


▲ THOUSANDS

Data: Commerce, Industry & Energy Ministry

WIRED NATION

BROADBAND ACCESS AS PERCENTAGE OF POPULATION



▲ PERCENT

Data: OECD

WORLD BOURSE

FOREIGN OWNERSHIP OF LISTED SHARES



▲ PERCENT

Data: Finance & Economy Ministry

The Samsung name is no longer a fallback for those who can't afford a Sony



in Korean society has come in for serious revision. Making a quick fortune in business and finance is no longer viewed as suspect. Nor do Koreans covet entry-level jobs at the biggest corporate names in Korea—the Samsungs, the LGs, the Hyundais. In such companies, “people think and behave in a uniform manner. I hate it,” says Jo Seong Hun, 31, a manager at the merger-and-acquisition firm SYM & Associates. Today, many young Koreans want to work at companies such as MP3 maker Digitalway, or NCSoft, the hot game maker.

The desire to create has spilled over into popular culture, which is becoming increasingly accessible to overseas audiences. Sixteen-year-old pop diva BoA's first album, *Don't Start Now*, has dominated the charts in Japan this year, while H.O.T., a boy band that blends hip-hop, R&B, and dance music, is big in China. Korean film is on a roll, too. The industry has doubled its annual box-office revenues, to more than \$380 million, since 1997. “I used to think Korean films were a waste of time,” says Lee Jee Min, 24, who works at SEI Asset Korea, a fund manager. “But they're pretty good these days.” Walt Disney Co.'s Miramax Films unit recently paid \$1.1 million for the rights to remake a Korean film called *My Wife Is A Gangster*. “We hope the boom in the movie industry will spread to other content businesses,” says Park Byoung Woo, deputy chief of the Culture & Tourism

Ministry's Film & Video Division.

It's not just Korean culture that is winning newfound respect. In the U.S. and elsewhere, Samsung electronics and Hyundai nameplates are no longer a fallback for those who can't afford a Sony or Toyota. A decade ago, Samsung barely registered as a global brand. Now, it's competing directly with Sony and Nokia for leadership in Internet-surfing mobile phones, digital televisions, MP3 players, and liquid-crystal displays.

While Korean companies were content to pump out uninspired knockoffs before, they are now producing cutting-edge products. At Samsung, Chairman Lee Kun Hee launched a design revolution, in part by bringing in former IBM design wunderkind Tom Hardy to get designers thinking outside the box. Key Samsung designers also worked

HOT FLICK

Disney bought the rights to *My Wife is a Gangster*

BY DESIGN

Creative types have taken Samsung to the cutting edge



with the U.S. firm Sapient to clear the cobwebs. “In the past, technology was the driver of new products,” An Yong Il, who runs Samsung's product research, says. “But now, design has taken over.”

Witness, too, how the Koreans came out of nowhere to grab a market-leading 55% of the rapidly expanding global market for MP3 players. Digital Audio launched in 1998 by a group of former Samsung engineers, has managed to snag a 30% share of the U.S., Japanese and Asian markets.

Even pockets of old industrial Korea are being revived, thanks to foreign capital and managerial talent. Back in 1998, the Swedish industrial giant Volvo bought the money-losing construction equipment arm of the Samsung Group in a \$572 million deal. The Swedes, with 22% of the workforce, refinanced the debt, narrowed a lineup of 13 products down to one—excavators—and focused on profits, not market share.

Volvo also moved its global excavator operation out of pricey Sweden to lower-wage Korea. Last year, Volvo Construction Equipment Korea posted a \$42.3 million profit on \$415 million in sales. Kim Hee Jang, a manager who survived the job cuts, finds the work environment far less hierarchical. “It feels as if I were suffocating if I went back to the old *chaebol* style,” he says.

If such stories can be replicated, Kim's strategic vision of turning Korea into a North Asian hub and export platform for multinationals could get interesting. One big edge is

Seoul's proximity to China.

Another is the bill of materials that the government has poured into wiring the nation with broadband fiber optics. The country's 10 million Internet surfers and 30 million mobile phone users make it a unique market to try new content services, wireless technology and more. And Korea's manufacturing capacity and engineering expertise add up to a “perfect environment” for Korea to emerge as an information technology research



How do you get daily updates
on your business health?

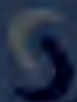
Help departments set
well-defined objectives?

And respond quickly to
changing market conditions?

SAS® is all you need to know.

Only SAS provides a complete view of your enterprise — one that brings together Finance, HR and other business units to meet strategic goals. So you can keep stakeholders happy, employees productive and competitors on the defensive. To find out how leading companies are reaping the rewards of SAS enterprise intelligence, call toll free 1.866.270.5722 or visit www.sas.com/enterprise

The Power to Know.

 **sas**

and development center, says Ko Hyun Jin, Microsoft Korea's general manager. Already, Nokia, Sun Microsystems, and Oracle have operations in Korea.

Of course, vestiges of the old Korea remain. Labor unions are restive, and some *chaebol* operations are walking-dead companies—virtually worthless, but still draining bank funds. There are thousands of small and midsize manufacturers that still aren't globally competitive. And the current influence-buying scandals involving two of Kim's three sons are a stark reminder of

Seoul's gold-plated political corruption. The country's political parties routinely ladle out cash to voters, and they have all been involved in payoff scandals involving not only companies big and small but also the government's underpaid bureaucrats. Kim, who is in the final year of a five-year term, hasn't been implicated in the current scandals and has apologized for his administration's failings. But he is feeling the heat. His approval rating has fallen to about 20%.

If Koreans elect a new president who is indifferent to the need for more re-

form, there's a risk that this Korean miracle could yet stall. Still, veterans of many an Asian crisis think Korea has turned a corner. "Once you let the genie out of the bottle," says IMF president representative Paul F. Gruen, "it's hard to put back in." The credit belongs to the Koreans themselves. After a huge shock, they sucked it up, got back to work, embraced new technologies, and started enjoying life again. First the pain, then the gain.

By Brian Bremner
Moon Ihlwan in Seoul

'THERE IS NO ROOM FOR NARROW-MINDED NATIONALISM'

By virtually every measure, South Korea has stormed back from its economic collapse in 1998. Its information-technology sector is booming, Seoul's major banks have been restored to health, and consumer spending is robust. Overseeing it all has been President Kim Dae Jung, whose five-year term ends next February. In a May 27 interview, Kim reflected on his tenure with *Asia Economics* Editor Brian Bremner and Seoul Bureau Chief Moon Ihlwan. Excerpts:



KIM DAE JUNG
Helped attract \$52 billion in foreign investment

\$24.6 billion in the previous 35 years.

You received a Nobel Peace Prize for your efforts to make North Korea less reclusive and less threatening. With terror a global threat, are you still optimistic?

If you look at North Korea's behavior, you occasionally get frustrated and dissatisfied. But if you look at the big picture, there has been progress. [The North] has set up relations with many Western nations and joined the ASEAN [Association of South East Asian Nations] Regional Forum [for security], and it wants to join the International Monetary Fund. Better South-North Korean relations require better U.S.-North Korean relations, and better U.S.-North Korean relations require better South-North ties. The North aspires to mend ties with the U.S. but it harbors distrust and fears about the U.S.

What lessons do Korea's recovery from the crisis and embrace of reform offer other developing countries?

For a country to overcome a crisis, it is vital to have support from its own people. Another important factor is to accept the pain accompanying reforms. You have to endure until the structural changes are complete. The government had to suffer from falling

popularity. But in this age of globalization, you have to accept that only profitable and competitive companies survive. Also, there is no room for narrow-minded nationalism. Foreign investment is a key factor in strengthening the competitiveness of local companies. In this new age, intellectual ability, creativity, and adventurousness [are] key elements of development. Ireland and Finland achieved tremendous growth thanks to their focus on high-tech industries and intellectual development. A developing country can quickly catch up with an advanced country if it utilizes such qualities.

Is China's ascendancy an opportunity or threat to Korea?

The emergence of China deepens competition with Korea and other Asian countries but at the same time brings about opportunities. A China moving closer towards the free-market system will contribute to the prosperity and stability of East Asia. We see opportunities to widen bilateral trade and strengthen economic cooperation with China.

Koreans don't think political reform has come fast enough. Your view?

Politicians in Korea have failed to win trust from the people and satisfy their needs. Regionalism has prevailed, while a tradition of negotiations and policy discussions has yet to take root. But the parties have introduced primaries in presidential elections and a bottom-up nomination process. It is true politics is the area where changes have been implemented slower than any other field. But I believe changes are inevitable. ■

What are your biggest accomplishments?

We've embraced radical reforms, breaking the collusive ties between government and business, particularly those involving the *chaebol* and the banks. Now we have clean banks and companies that are competitive in terms not only of price but also of quality. They are not perfect, but they are getting stronger. And of course, we had a lot of pain. Some 600 of 2,100 financial institutions were shuttered, and 16 of the 30 largest *chaebol* were either broken up or found new owners.

We also made a serious investment in bringing about an information revolution in Korea. Another important factor was our aggressive effort to attract foreign investment. We made changes in our regulations and business practices to attract \$52 billion worth of foreign investment since my inauguration. That compares with

Talk about easy. Our company now
has wireless access to our inventory.
Real-time information. From anywhere.

In our day, if you wanted to know
what was in the warehouse, you
had to walk there yourself.



WIRELESS MANUFACTURING, INC.

Through the snow.

tel Wireless Business Solutions. Now you'll never have to say "Imagine what I could have
if..." because you'll be busy doing it. And it's not just having the Internet on your phone;
real-time access to customer data, pricing, inventory. Whatever drives your business.
time. Anywhere. On a variety of devices. And it's all possible because only Nextel has a
onal wireless network designed specifically to carry both voice and data. Call toll free
T-NEXTELC, or visit nextel.com/WBS to see how we can help you outmaneuver your competition.

WIRELESS
BUSINESS SOLUTIONS

NEXTEL



COMMENTARY

By Paul Starobin

PUTIN GOT HIS DEALS—BUT RUSSIA ISN'T HAPPY

It was one of the most successful summits since the end of the Cold War. On May 24 in the Kremlin, Russian President Vladimir V. Putin and U.S. President George W. Bush signed off on a strategic nuclear arms reduction pact. Four days later in Rome, NATO leaders agreed to accept Russia as an alliance partner.

A treaty, a partnership, a deepened friendship: Putin clearly got what he wanted. And he knows what he wants next: a steady flow of foreign investment, especially from the U.S., as Russia's Westernization proceeds apace. But how much do Russians really want to Westernize, especially if it means selling assets to foreign owners?

The answer to that question will determine Putin's success. Disturbingly, the post-summit mood in Russia is sour, a mix of wounded pride, apprehension, and historic animosity. "Russia Capitulates to NATO" was the headline on *Gazeta.ru*, an online Moscow-based newspa-

The problem, says Michigan State University professor Vladimir Shlapentokh, is "black envy" over America's wealth and might. The Chubais group of reformers "want to be rich and powerful in their country and enjoy high prestige abroad," Shlapentokh says. Hard to do when America, not Russia, holds the cards.

Putin's answer: swallow your pride and team up with the West. But it will take a lot of teamwork to expand Russia's role in the world

visit to the Tula region, south of Moscow, to encounter resentment by officials toward Procter & Gamble Co., which had acquired a detergent factory in 1993. "In their psychology working for a foreign investor and being paid is worse than working for a Soviet director and not being paid," Moiseyev says.

Political discontent could also crystallize over Putin's goal of rapid entry into the World Trade Organization, which European Union leaders boost-



IN MOSCOW: What Putin needs now is U.S. investment

ed on May 29 by agreeing to grant Russia "market economy" status. As their own condition for Russia's WTO membership, EU countries are insisting that that Moscow slash subsidies that keep energy prices some six times lower than in Europe. A sharp price increase could sap Putin's popularity.

"Any drop in his approval ratings could open the way for a patriotic conservative figure to accuse Putin of selling out to the West," warns Irina Khakamada, a leading liberal in the Russian parliament.

True, Putin so dominates the stage that he can probably weather the emerging backlash and win reelection in 2004. But this should be no cause for relief on the part of Western leaders. After all, one of their goals is to make Putin's Russia a vibrant democracy. But in a more open society, there's more scope for opposition to Putin.

Such is the dilemma Bush must mull in Washington. Which is better: Czar Vladimir in firm control of a pro-U.S. policy, or a freer country in which anti-Americanism could be a political rallying cry? Dealing with Russia is never going to be easy.

Starobin covers Russian politics and economics from Moscow.

ANGER Putin's critics say his accords on arms control and NATO are capitulations to the U.S., which could mean political trouble

per. What look like victories to Putin come across as surrenders to his enemies. Putin agreed to arms reduction—on terms largely dictated by Bush. And Putin got a deal with NATO—but it limits Russia's role to areas such as peace-keeping, even while the ex-Soviet Baltic republics are likely to win full membership.

Grumbling about America's bear-hug friendship isn't confined to ex-Soviet generals. It's widespread among ordinary Russians and even among members of the Western-oriented political elite, such as Anatoly B. Chubais, the chief of electricity monopoly Unified Energy System.

economy. Nearly 11 years after the collapse of the Soviet Union, what stands out is Russia's relative isolation. From 1994-2001, annual direct foreign investment in Russia, per capita, averaged \$165, compared with \$2,240 for the Czech Republic and \$1,245 for Hungary, according to Moscow brokerage Renaissance Capital. And even with its lucrative energy sales, Russia ranks 17th among the world's exporters.

Part of the problem is that foreigners are still seen in many provincial corners as a threat. Renaissance Capital economist Alexei Moiseyev says he was "shocked" on a recent



Introducing CRT monitors as brilliant as your ideas.

Seven new models from 17" to 22."

Each delivers brilliant performance and value in your choice of black or white cabinet styles.

SuperBright™ makes images come alive.

Instantly doubles brightness for intense video, graphics and multimedia applications.

NaViSet™ offers a new level of control.

Advanced software enhances user control and enables remote adjustment over LANs.

Compact, light, even more adaptable.

New ergonomic design trims weight and reduces footprint for a better fit everywhere.

With SuperBright™ Diamondtron®, an all-new design and even more lifetime value, our MultiSync® FE™ Series just might change what you know about CRTs. These all-new monitors are full of dazzling innovations. For example, the SuperBright technology in the MultiSync FE771^{SB}, FE791^{SB}, FE991^{SB} and FE2111^{SB} models doubles your brightness at the touch of a button. New industry-standard sRGB color matching gives truer tones in web applications. And NaViSet™ control software puts a virtual control panel on your desktop for precise adjustment via mouse and keyboard.

The FE Series also offers extreme reliability, easy deployment and low total cost of ownership. Power use has been reduced by as much as 21%, lowering electricity costs. Plus we've trimmed pounds and inches for a lighter, more ergonomic form factor. Add patented self-diagnostics and intelligent network control capability, and the new choice in CRT monitors is clear.

Learn more at www.necmitsubishi.com/FE or call 888-NEC-MITS.

The new MultiSync FE Series.
A bright investment in intelligent design.



SEE MORE.™

MultiSync is a registered trademark, and FE, NaViSet and SuperBright are trademarks of NEC-Mitsubishi Electronics Display of America, Inc. Diamondtron is a registered trademark of Mitsubishi Electric.

©2002 NEC-Mitsubishi Electronics Display of America, Inc.
All rights reserved. Simulated images in monitors.

NEC/MITSUBISHI
NEC-MITSUBISHI ELECTRONICS DISPLAY

EDITED BY ROSE BRADY

WHY BUSH CAN'T LET KASHMIR SPIN OUT OF CONTROL

Once again, tension is close to the breaking point in the long-running conflict between India and Pakistan over the disputed territory of Kashmir. As Pakistanis brace for all-out war, polls in India show that 96% of the population supports military action against alleged terrorist training camps in Pakistan. Even businesspeople such as Rajive Kaul, president of New Delhi's All India Management Assn., speak matter-of-factly of a potential exchange between the two nuclear rivals. If Pakistan were to launch a nuke-tipped missile, he says calmly, New Delhi could handle the loss of 5 million people—because Pakistan would be wiped out in India's second strike.

A dire scenario indeed—one that has spurred a frenzy of diplomatic activity, especially by the U.S., Britain, and Russia, since May 14. That is when militants, claimed by New Delhi to be backed by Islamabad, killed 35 Indian civilians in Kashmir, and Indian Prime Minister Atal Behari Vajpayee threatened to retaliate. Although the situation could spin out of control, Washington is still counting on Vajpayee's restraint—at least for a few months. The rationale: The consequences of war could be so terrible that the Indian Prime Minister will have to give Pakistan President General Pervez Musharraf more time to deliver on his pledge—repeated on May 27—that he won't let Pakistan be used as a staging ground for terrorist infiltration into Kashmir. In the meantime, the U.S. will work overtime to defuse the crisis.

It's vital to the foreign policy of President George W. Bush that his diplomats succeed. Even a limited war, such as an Indian attack on terrorist camps in Kashmir, would set back the U.S. campaign against terrorism. If Islamabad diverts troops from the Afghan border to face down India, it would give freer rein to al Qaeda and Taliban forces aiming to

disrupt the new government in Kabul. "Our paramount concern is our ability to deal with the Taliban and al Qaeda," says an Administration official. "A deeper crisis in South Asia will also distract U.S. efforts from brokering peace in the Middle East—and figuring out how to deal with Iraqi strongman Saddam Hussein."

That's why the U.S. is sending Deputy Secretary of State Richard L. Armitage on an urgent mission to Islamabad and New Delhi on June 6-7. He is likely to pressure Musharraf to crack down on militants and shut training

camps. And he will urge Vajpayee to be patient. If consultations don't work, Washington could freeze arms sales to both countries and cut economic aid to Pakistan. Britain and Japan are considering similar measures. And Russian President Vladimir Putin has offered to meet with Musharraf and Vajpayee at a regional summit in Kazakhstan on June 3-5.

Some analysts say Musharraf could ease the tension by handing over 20 terrorists wanted by New India. "All it takes is a gesture," says Manabha R. Chari, director of the Institute of Peace & Conflict Studies in

New Delhi. But it's politically difficult for Musharraf to give in to the Indian and U.S. demands. He is already under pressure from his military for allowing the U.S. to deploy special forces against al Qaeda inside the country.

For now, the U.S. is hoping it can parlay its improved relations with both India and Pakistan into at least an interim solution to the crisis. It's the first time in decades the U.S. has had good relations with both countries. The alternative to a solution is a terrible one to contemplate. Millions of lives hang in the balance.

By Stan Crock in Washington, with Manjeet Kripal in Bombay, Naveen A. Mangi in Karachi, and bureau reporters



SHRILL RHETORIC: Vajpayee, Musharraf

GLOBAL WRAPUP

TONY BLAIR'S SHAKE-UP

► The resignation of Britain's Transport Secretary, Stephen Byers, on May 28 has triggered a shuffle in Labour Prime Minister Tony Blair's Cabinet. Byers, who has been under fire for recent railway disasters and for rocky relations with Parliament, is being replaced by Work & Pensions Secretary Alistair Darling. Darling will now have to oversee a major upgrade of Britain's outdated rail network. Andrew Smith, the No.2 official at the Treasury, is replacing Darling.

What's interesting about these changes is that Blair loyalists are losing ground. Byers was a key Blairite. Others, such as Defense Secretary Geoffrey Hoon and Health Secretary Alan Milburn, remain. But associates of the powerful and ambitious Chancellor of the Exchequer, Gordon Brown, such as Darling and Smith, are getting top jobs. And independent figures who cut their teeth under pragmatic former leader Neil Kinnock—such as Home Secretary David Blunkett and Trade & Industry Secretary Patricia Hewitt—are emerging as powers.

Blair is still in a strong position, because Labour continues to run eight percentage points ahead of the Conservatives in the polls. But should he stumble, Blair might find the party turning against him. "If there was a period of sustained political weakness, then I think it is inevitable that some of today's camp followers would switch allegiance," says Peter Kellner, chairman of YouGov, a British Internet polling service. In that case, the likely beneficiary would be Blair's longtime rival, Brown.

By Stanley Reed in London

power

to thrill the EPA and your CFO.



Today's business climate, putting off change will cost you. That's why companies around the world turn to Emerson for the most advanced HVAC technology available today. In fact, businesses are staying a step ahead of government regulations and the competition with help from Emerson Climate Technologies. Our industry-defining Copeland Scroll compressors are making it possible to convert air conditioners to new, greener refrigerants eight years before the mandated deadline. Ready to help protect the environment and your bottom line? Visit us at GoToEmerson.com and consider it solved.

EMERSON
CONSIDER IT SOLVED.

Emerson, the Emerson logo, and services mark are trademarks of Emerson Electric Co. © 2002 Emerson Electric Co.

POWER • PROCESS MANAGEMENT • CLIMATE TECHNOLOGIES • STORAGE SOLUTIONS
DIGITAL AUTOMATION • MOTOR TECHNOLOGIES • APPLIANCE SOLUTIONS • PROFESSIONAL TOOLS



NOT THE TICKET
MIAMI IN APRIL

Few Major League Baseball teams need to work as feverishly to fill empty seats as the fan-starved Florida Marlins. With attendance down an alarming 31% from last year, the Marlins are leaving no gimmick unturned. Witness "Dog Day Afternoon," a promotion that attracted 312 pooches to Miami's Pro Player Stadium—accompanied by owners and pooper scoopers.

Fan apathy is no less a headache for Florida's other MLB franchise, the Tampa Bay Devil Rays. The last-place Rays, holders of a season-worst 15-game losing streak, haven't sold even half their tickets to a home game since Opening Day.

Is this really happening in Florida? A decade ago, it was the crown jewel of expansion plans, so coveted that American and National League owners haggled over how to carve up enticing markets. Says former U.S. Senator Connie Mack III (R-Fla.), grandson of the legendary baseball manager: "Because of the history of spring training in the state, it just seemed like a natural."

Now, that bright promise seems as distant as a Mickey Mantle home run. In fact, if MLB Commissioner Bud Selig and team owners make good on the promise to eliminate or move two money-losing teams, the weak sisters in Florida figure to be high on their list.

Some Florida officials wonder whether Bud and the boys are already sharpening the knife. Attorney General Bob Butterworth is fighting in court for records of meetings at which contraction or relocation was discussed.

Butterworth sent out subpoenas after MLB President and COO Bob DuPuy disclosed at a Senate hearing that owners were eyeing several distressed franchises, "including

BASEBALL

DOWN TO THEIR LAST OUT?

Florida's teams could be history if revenues don't rise

teams from the state of Florida." DuPuy says it's not surprising that the Devil Rays and Marlins would be on a list of 8-10 teams "given the length of time [they] have been in existence and their disappointing economic performance."

In Florida, debate about where baseball went wrong is a sport in itself. Theories range from lousy ballparks in the wrong neighborhoods to spring-training overload to fickle owners. Remember

then-Marlins owner H. Wayne Huizenga complaining on the day after his triumph in the '97 World Series: "We're pleased and excited that we won. But we lost \$34 million." In short order, Huizenga dismantled the team.

Former baseball commish Fay Stendergast places some of the blame for the current situation in Florida on the notorious expansion among owners in the 1980s, which led to a players' award of \$280 million. "Owners steal \$280 million from players. Players get a judgment against them. Owners have to come up with that [money] fast, so too many [expansion] franchises are sold," says Vincent Vincent.

Although neither patient is well, the Marlins appear more stable than the Rays. New owner Jeffrey Loria, who unloaded the Montreal Expos, bought the Marlins in February, insisting that he's committed to operating the team in South Florida indefinitely, though he'll lose \$20 million this year.

In Tampa, Devil Rays Managing General Partner Vince Naimoli is putting the best face on another disappointing season. Says Naimoli: "In our five-year plan, we're about right on."

But other observers don't see a five-year future for the Rays, especially after rebelling minority investors last season forced Naimoli to hire a senior executive to help run the team. Then in April, it was reported that MLB had to guarantee a loan for the cash-strapped Rays. Naimoli and MLB deny that. Team officials acknowledge that the Rays—and 16 other teams—have been drawn on MLB's central credit line.

"Tampa Bay is going to go under unless baseball keeps subsidizing it," predicts Vincent. "And I don't know how baseball can keep doing that."

By Mark Hyman

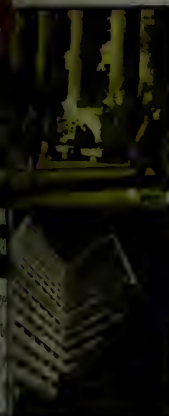
Hot and Cold Seats

Average attendance and percentage of seats filled for six top major-league teams—and for the two Florida franchises—through May 19

	GAMES	TOTAL	AVERAGE	PERCENT CAPACITY
SEATTLE MARINERS	21	865,497	41,214	87.5%
SAN FRANCISCO GIANTS	22	865,286	39,331	94.8
ARIZONA DIAMONDBACKS	22	828,189	37,645	76.8
ST. LOUIS CARDINALS	21	776,147	36,959	74.2
LOS ANGELES DODGERS	23	829,786	36,078	64.4
NEW YORK METS	21	737,595	35,124	61.9
TAMPA BAY DEVIL RAYS	22	304,614	13,846	31.6
FLORIDA MARLINS	21	217,002	10,333	28.4

Data: Major League Baseball

MINNESOTA



In good times or bad, Minnesota counts its economic blessings.

In the superheated 1990s, the North Star State's red-hot economy grew 23 percent faster than that of the U.S. When the ensuing recession hit, Minnesota's economy slowed but didn't stop percolating. As recently as April of this year, the unemployment rate stood at 4.3 percent, significantly lower than the national rate of 6 percent.

Its robust growth and resiliency have earned Minnesota top ratings on the economic scorecards of organizations that keep track of such things. Most recently, in a global survey of 300 cities done by a United Kingdom think tank, the Twin Cities region was ranked as the most competitive "knowledge economy" in the world.

Such recognition reflects the state's growing reputation as a major player in the national and global economic arenas.

"I have no doubt that Minnesotans can compete with anybody in the world," says Governor Jesse Ventura. As if to prove his point, the governor recently led a

WORLD CLASS COMPETITOR

the challenging global market, the North Star State is leading the way.

business development mission to China. And there are ample statistics to support his assertion that Minnesota is a world-class competitor.

Consider just a few of them. Between 1990 and 2000, Minnesota's manufactured exports increased by 31 percent, adjusted for inflation. They rose to almost \$10 billion in products exported to 187 countries in 2001. The Asia-Pacific region and Europe accounted for nearly 67 percent of that total, and they are expected to expand by almost \$2 billion over the next five years. ➤





ADC Poised for Growth

Q: Who is ADC?

RR: ADC provides last-mile solutions for the delivery of voice, high-speed Internet, video, and data communications to homes and businesses.

Q: Why Minnesota?

RR: We started here. We have operations around the world - we have development teams on the East Coast, in California, Israel, South America and Europe. But the spirit of innovation began here and Minnesota remains our home base.

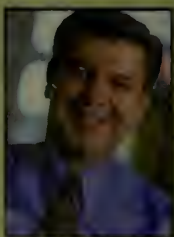
Q: How is ADC withstanding this year's downturn in telecom?

RR: 2001 was an abrupt change for most companies in the sector. Telecom looks vastly different today and we've changed ADC to capture new opportunities in wireless, cable and wireline markets.

Q: What's the future for ADC?

RR: The long-term future is bright. People are using high-speed Internet, data and video services in increasing numbers worldwide. Adoption is happening slower now than in the past — especially here in the U.S. — but it continues to grow and we expect the market to pick up speed again in 2003.

For more information about ADC, go to www.adc.com or call 800-366-3891.



Richard R. Roscitt,
Chairman and CEO,
ADC Telecommunications
(ADCT)

Minnesota refutes conventional "Sunbelt" wisdom, which equates warm weather with hot business climates. Ranked fifth in area and 21st in population among the 50 states, Minnesota regularly sets nationwide lows on the country's weather map. In its towns and cities, hockey skates are de rigueur for boys and girls, and a good freeze means it's time to tow the fish house down to the lake.

Minnesota is the source of the mighty Mississippi River. It begins as a small creek trickling from Lake Itasca in the northwest quadrant of the state, and becomes the third largest river in the world. On its 2,350-mile journey to the Gulf of Mexico, the Mississippi divides the Twin Cities of Minneapolis and St. Paul, a metropolitan area of 3 million people. Eighty miles south of the Twin cities is Rochester, home to the Mayo Clinic, where a half million patients are treated annually.

When it comes to marketing products worldwide, Minnesota-based companies have created such universally recognized brands and symbols as Pillsbury's Jolly Green Giant and Little Doughboy, General Mills' Betty Crocker, and 3M Company's Scotch brand.

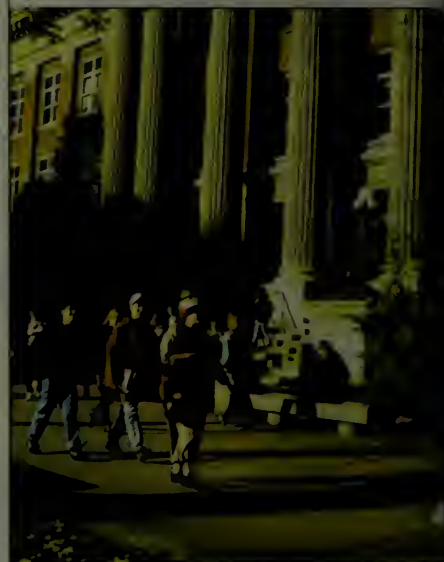
For every long-established company, there are many fledgling companies poised for growth, especially in the area of technology. Minnesota has been called the "Silicon Valley of the Midwest." Some 2,300 computer companies have facilities in the state. It is in fact the birthplace of much technological innovation. One example: The first supercomputer was developed here by Seymour Cray, a graduate of the University of Minnesota.

Like technology companies everywhere, however, Minnesota's have bucked severe economic headwinds during the past two years. Many have repositioned themselves. A good example is ADC, a worldwide provider of broadband systems. With annual sales of \$2.4 billion, ADC is headquartered in a gleaming new facility in the Minneapolis suburb of Eden Prairie, where it has prepared for the future. "It has been a rough year

for telecommunications companies all kinds, and that includes technology companies like ADC," says Richard Roscitt, chairman and CEO. "Going forward, we have placed our bets on broadband solutions for telephone, wireless and cable service providers and we're poised to grow when the market resumes some degree of health. We believe that will happen in 2003."

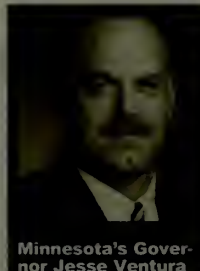
But Minnesota needn't stake its future on the health of any single industry, for its economic base is diverse. It is home to a broad spectrum that includes the manufacture of medical products, production of scientific and technical instruments, advertising and accounting services, health

The largest of The University of Minnesota's four campuses is located in the heart of the Twin Cities.



care, forest products, computers, printing, publishing and food processing. Increasingly important to the mix is tourism, which the state says returns \$9 for every \$1 invested. And, as a major agricultural producer, Minnesota ranks sixth in the nation in cash receipts from field crops and eighth receipts from livestock.

Many of the agricultural areas are served by Great River Energy, which Minnesota's second-largest electric utility based on generating capacity. It was formed in January 1999 with the consolidation of Cooperative Power and United Power Association, and is now the fourth-largest generation and transmission cooperative in the country, in terms of assets. "We're serving a region with growing appetite for energy," says Jim Van Epps, company CEO. "Our serv



Minnesota's Governor
Jesse Ventura



One size does not fit all.



LAWSON™

You shouldn't have to adapt your company to fit some imposing enterprise software design. At Lawson, we create software solutions for specific industries. Our industry experts make sure of it. The result is proven software that works for you. With deeper functionality. Fast, seamless implementation. Rapid return on investment. Lower total cost of ownership. And experienced consulting and support teams to meet your ongoing needs. Which explains why many of our customers are industry leaders. Details await you at www.lawson.com/truck20 or call 1-800-477-1357.



GREAT RIVER ENERGY®

A Touchstone Energy® Cooperative 

Great River Energy is a cooperative, built from a rich history. Electric cooperatives were formed to serve a need for energy in rural areas. They are consumer-owned, consumer-driven businesses that exist to provide a service rather than generate a profit. The nation's rural electric systems operate and maintain nearly half this country's power. Electric cooperatives were formed by communities of individuals striving to do together what they could not do alone. They are the embodiment of concern for community.

That cooperative spirit still lives today and is reflected in the innovative ways Great River Energy and its 29 member cooperatives work together to provide an ever-growing array of energy solutions. These member cooperatives serve a variety of customers, ranging from farmers, residential consumers, cabin and resort owners, and commercial and industrial business owners.

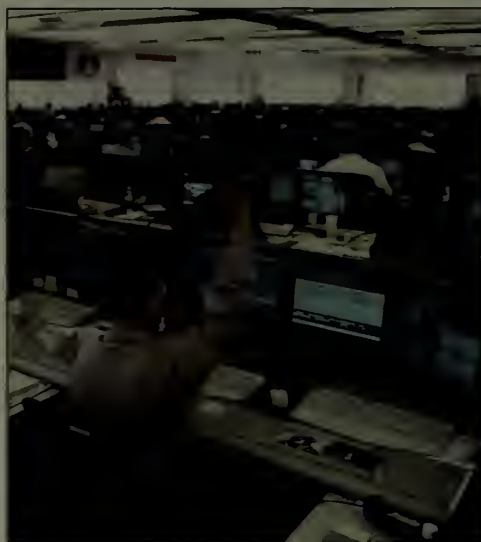
With its talented workforce and a board of directors focused on meeting customer needs, Great River Energy has quickly become Minnesota's second largest electric utility, based on generating capacity, and the country's fifth largest generation and transmission cooperative, in terms of assets. Great River Energy is a Touchstone Energy cooperative.

Our mission: "Provide reliable, competitively priced electricity and other services that maximize value to those we serve." Visit www.greatriverenergy.com.

area stretches from the farming communities in southern Minnesota through the lake country to the logging industry at the northern tip of the state."

According to Van Epps, Great River Energy expects even greater demands for its service. "We serve many of the Minneapolis-St. Paul outer-ring suburbs, an area that consistently has been one of the nation's leaders in job growth and energy usage. That growth is expected to continue well into the future."

Successful cooperatives such as Great River Energy come as no surprise in Minnesota, which has a reputa-



U.S. Bancorp Piper Jaffray's high-tech trading floor.

tion as a progressive state. It's known for generously funding many programs with tax dollars. Much of that tax money, says Governor Ventura, supports a superlative education system. Taxes also provide the financial underpinnings for a lifestyle Minnesotans jealously preserve. "You get a good bang for your buck," says the governor. "Your quality of life is high, so that's the trade-off."

The Minnesota lifestyle has plenty of appeal even for those not born to it. "Minnesota is a great place to live, a great place to raise a family," says Jay Coughlan, CEO of Lawson. Coughlan came to Lawson, a provider of collaborative, industry-tailored enterprise software solutions for the needs of service industries, from Philadelphia. Privately held when Coughlan arrived 15 years ago, Lawson is now a publicly held company with more than \$400 million in annual sales. For the fiscal third quarter

that ended in February, the St. Paul-based company reported the second best quarter in its history for revenue and net income performance.

Important as lifestyle is to its economic vitality, Minnesota has not ignored the importance of the bottom line. To that end, it whittled away more than \$1 billion of state-imposed taxes on businesses in the last decade, including a reduction in workers' compensation taxes, as well as decreases in business property taxes.

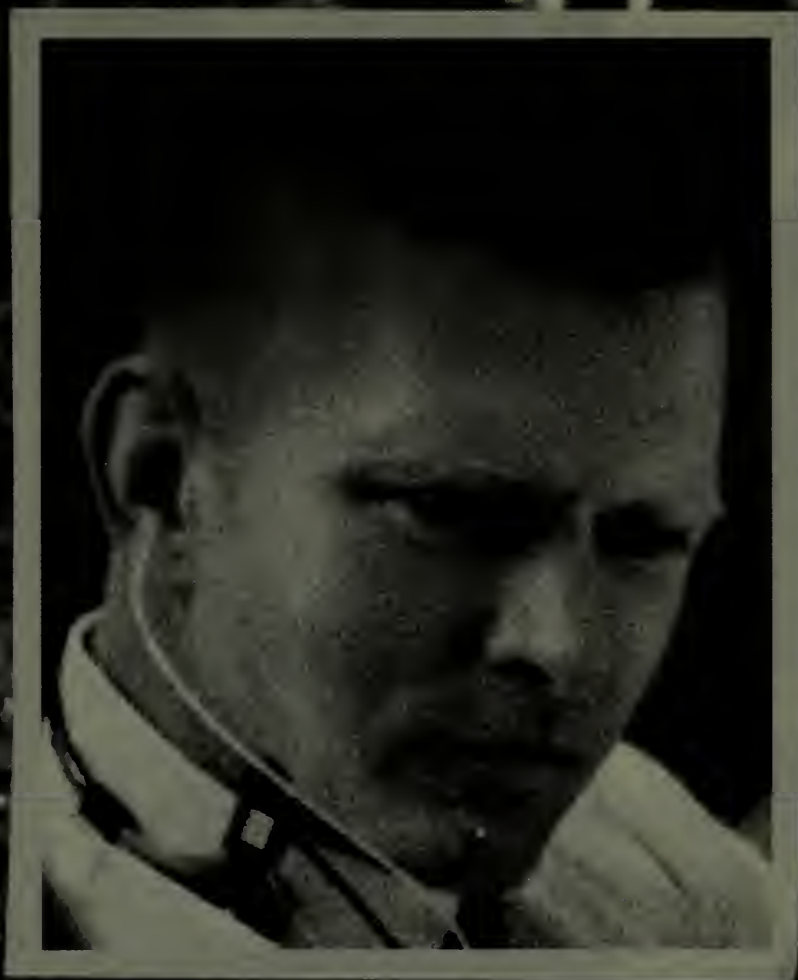
Lacking Sunbelt seasons, Minnesota has nurtured education, workforce training, high-tech industries and the other essential ingredients to find a formula for keeping and attracting successful businesses. Judged by the results, it's a formula that works, to the benefit of companies inside and outside Minnesota's borders.

As an example, U.S. Bancorp was acquired by Firststar Corporation early last year, which led to its becoming the 8th largest financial-services holding company in the United States. One of its subsidiaries, U.S. Bancorp Piper Jaffray, provides a full range of investment products and services to businesses, institutions, and individuals. Its three major business lines include private advisory services, equity capital markets and fixed income capital markets.

With 2,900 employees, U.S. Bancorp Piper Jaffray has 120 offices in 21 states, so its financial reach goes far beyond Minnesota. Coming off 2001, the results were impressive at every level. The division had more than 550,000 client accounts, representing \$50 billion in client assets; the equity

Canoeing on the Mississippi River, which begins its long journey to the Gulf of Mexico in Minnesota.





For guides like Gene Kranz, failure is not an option.

He learned his craft in the early days of the Mercury program, as the U.S. struggled to catch the Soviets in space. Then, as flight director for Apollo, he guided the first man to the moon. And, against all odds, brought back the crew of the stricken Apollo 13 using intelligence, nerve and split-second decisions rooted in long experience.

We too have spent years guiding clients, perfecting our skills, building a team that's second-to-none.

- We were the top-performing bookrunning lead manager of 2001.[†]
 - Guided clients on deals valued in excess of \$20 billion.
 - And maintained our #1 ranking in after-deal IPO support.^{††}
- A few facts to consider before your next giant leap.

Guides for the journey.

us bancorp
Piper Jaffray®

INDIANAPOLIS MENLO PARK SAN FRANCISCO LOS ANGELES SEATTLE CHICAGO NEW YORK LONDON TEL AVIV*

[†] Year-end return from offer price for all IPOs and follow-on offerings completed in 2001. Rankings include all bookrunning managers completed at least 10 transactions in 2001. Source: Dealogic. ^{††} Based on IPOs underwritten from 1-1-00 to 12-31-01. Securities products are offered through U.S. Bancorp Piper Jaffray Inc., a subsidiary of U.S. Bancorp, member SIPC, and NYSE, Inc. *Strategic alliance.

www.piperjaffray.com
01/02 00-1764

100
A CENTURY
of INNOVATION



3M—A Century of Innovation

For 100 years, 3M's amazing technologies have solved everyday problems. From Scotch® brand Tape and Post-it® Notes, to computer displays and medical products, 3M delivers products that make customers' lives easier.

Founded in Minnesota, 3M now gets more than half its \$16 billion annual sales from outside the United States, via operations in more than 60 international countries.

Known for innovation, 3M leverages its advanced technologies, strong brands and global reach to serve a diverse range of markets. These include health care, safety, electronics, telecommunications, industrial, consumer and office, and many more.

Moreover, 3M gives back to its communities through employee and retiree volunteerism and charitable contributions to educational, environmental and community programs.

As we begin another Century of Innovation, we're confident that 3M's spirit of ingenuity will continue to make our world a better place.

For more information, go to www.3M.com or call 800-3M HELPS.

3M

10 reasons why Minnesota is a world-class competitor

1. Proven Performance

Minnesota ranked ninth in major corporate expansions in 2001, according to Site Selection magazine, and made the top five list for development capacity and business vitality in a study by the Corporation for Enterprise Development.

2. High-Tech Industries

One of the top 10 states for creating high-tech jobs, Minnesota's high-tech employment grew 28.5 percent in the 1990s. More than 8,000 high-tech firms employ nearly 200,000 skilled workers, and countless businesses using high-tech processes employ thousands more.

3. Robust and Diverse Economy

Minnesota's economy grew 43.3 percent in the 1990s, while the nation's economy grew just 34.7 percent.

4. Skilled and Educated Workforce

Nearly 91 percent of Minnesotans have a high school diploma (third in the nation) and 31 percent have earned bachelor's degrees (seventh). Minnesota has the nation's highest proportion of college graduates in the workforce (75.1 percent) and the eighth lowest rate of absenteeism.

5. Excellence in Education

Ranking fourth in the number of companies spun off from its discoveries, the University of Minnesota not only provides skilled workers, but also contributes to the state's economy.

6. Reliability and Affordability

Electricity and gas prices are lower in Minnesota than the national average for most customer classes, and Twin Cities rental rates and availability (with more than 11 million square feet of industrial and office space in the last two years) are competitive with those of other major markets.

7. Transportation Links

Minneapolis-St. Paul International Airport (MSP) offers non-stop flights to 130 U.S. cities and 15 international destinations in Canada, Mexico, the Caribbean, Latin America, Europe and Asia. The airport served 37 million passengers in 2000, ninth in the U.S.

8. Technology

The 1999 State New Economy Index shows Minnesotans enjoying the ninth best digital economy penetration. And the 2001 Metropolitan New Economy Index placed the Twin Cities third in developing and attracting knowledge workers.

9. Venture Capital

A 2001 study by the National Venture Capital Association ranked Minnesota 11th in jobs created by companies originally backed by venture capital, and the second fastest-growing state in venture capital investment between 1996 and 2001.

10. Quality of Life

Minnesota's cultural attractions, outdoor recreation and scenic landscapes appeal to both residents and visitors. And for the sixth straight year, Minnesota tops Morgan Quitno's "Most Livable State" rankings, based on indicators such as affordable housing, safe streets, a strong education system and excellent health care.

Department of Trade and Economic Development

capital markets unit had been named "Middle Market Mergers and Acquisitions (M&A) Bank of the Year" by Mergers and Acquisitions magazine; and the fixed income capital markets included \$6.29 billion in municipal underwriting and \$11.5 billion in total agency underwriting.

When its new headquarters was built at 800 Nicollet Mall in downtown Minneapolis, U.S. Bancorp Piper Jaffray accommodated its growth and future by creating two clean-line-of-sight, state-of-the-art trading floors, one for equity capital markets and another for fixed income capital markets. The floors so impressed CNBC that the cable net-

work sent a reporter to do a story about the sophistication of such operations located in Minnesota.

What else would one expect to find in a state that's a world-class competitor?

This special section was written by Edwina J. Walsh and designed by John Browning ROP, Ltd. Produced by James O. Armstrong, president of James Armstrong & Associates Inc., james-armstrong@worldnet.att.net.

For more information on BusinessWeek Special Advertising Sections, contact Steve Sass McNulty, Director, Worldwide Special Advertising Sections, at 212-512-6296 or stacy_sass-mcnulty@businessweek.com.

Of all people, a CIO should know the value of networking.

Talk about gaining perspective. Join forces with other top CIOs and recognized thought leaders to discuss **Efficiency, Security, and Growth in an Age of Discontinuity**, **June 20-21, 2002**, at BusinessWeek's 2nd Annual CIO Summit at The Westin Copley Place, Boston, Massachusetts.

To reserve your place at BusinessWeek's CIO Summit, call (877) 734-4249, email: cio2002@businessweek.com, or visit www.conferences.businessweek.com/cio2002



Gregor S. Bailer
CIO,
Capital One



Daniel G. McNicholl
CIO, General
Motors North
America



Rob Clyde
CTO, Enterprise
Solutions Division,
Symantec



Janey A. Place
EVP, eCommerce
Strategy,
Mellon Financial



Timothy M. Ferrarell
SVP, Enterprise
Systems,
W.W. Grainger, Inc.



C.K. Prahalad
Professor of Business
Administration, University
of Michigan Business
School; Chairman,
PRAJA inc.



John Haley
SVP and CTO,
ALLTEL



Atefeh Riaz
Senior Partner
and CIO, Ogilvy &
Mather Worldwide



Robert J. Herbold
Former COO,
Microsoft



Ronald V. Rose
CIO,
priceline.com



Mark V. Hurd
President, NCR
Corporation; COO,
Teradata Division



Cecil O. Smith, Jr.
SVP and CIO,
Duke Energy



Paul Lacouture
President, Network
Services Group, Verizon
Communications



Philip S. Thompson
VP, Business
Transformation
and CIO, IBM



Karl O. Wachs
CIO,
Celanese AG



Presented by

BusinessWeek
| Events

The McGraw-Hill Companies

Sponsored by

Teradata
a division of **NCR**

THINQ
LEARNING THAT POWERS BUSINESS

Association Partner

SIM
INTEGRATED MARKETING

See inside



For sponsorship opportunities, please contact Jim Richardson at (212) 512-4435.

POLITICS

A RACE THAT HAS BIG BIZ SWEATING

Why it's working to reelect corporate gadfly John Dingell

America's carmakers have no better friend on Capitol Hill than Big John Dingell of Michigan. As the top Democrat on the powerful House Energy & Commerce Committee, Representative Dingell has doggedly guarded Detroit's interests for decades, blocking tougher fuel-economy standards and clean-air laws.

That hasn't stopped Dingell from being a large thorn in the side of the rest of Big Business, however. Recently, he voted against terrorism insurance, opposed oil drilling in the Arctic National Wildlife Refuge, and put accounting firms on the hot seat. Last year, he voted with Corporate America just one-fourth of the time. But now, Dingell is running for his life in a newly created district against a determined liberal—and he's counting on business support to pull him through.

His strategy might just be working. As Dingell braces for his biggest campaign fight in decades—an Aug. 6 primary against fellow incumbent Lynn Rivers—he is swimming in corporate money and industry endorsements. Sweaty-palmed executives concede they aren't particularly enamored of Dingell, who was first elected in 1955 and is the longest-serving House member. But they are terrified of the man who sits to Dingell's left on Energy & Commerce: Representative Henry A. Waxman (D-Calif.). A fiery antagonist of corporate interests, Waxman is first in line to take the panel's top Democratic seat if Dingell loses.

Even worse, should Dems win control of the closely divided House, Waxman could become chairman.

If you believe corporate lobbyists, Waxman has never met a regulation he didn't like. And about a third of all legislation flows through Energy & Commerce. "Nobody has to convince business that it's better off with John Dingell than with Henry Waxman," says Bernadette A. Budde, senior vice-presi-

dent of the Business-Industry Political Action Committee, a fund-raising group. On May 2, BIPAC took the unusual step of jumping into a primary race, backing Dingell against Rivers.

Dingell, who was elected to the House the year before Rivers was born, finds himself in this quandary because Michigan lost a congressional seat in the 2000 census. The Republican-state legislature eliminated one Democratic seat by throwing incumbents Dingell, 75, and Rivers, 46, into the same district. The new district remains strongly Democratic, but as home to both blue-collar Detroit suburbs and left-leaning college town of Ann Arbor, it is ideologically fractured.

Conventional wisdom had Rivers bowing out in the face of Dingell's stature and well-oiled political machine. Instead, she's taking him head-on. Rivers figures she has the edge—only half the new district's Democrats, her constituents, vs. 45% for Dingell.

Rivers' legislative record is weak: She has never introduced a bill of her own. But she's running as an anti-Dingell, championing stronger clean-air laws, gun safety. Now, as Rivers pounds on abortion rights, gun control, and the environment—issues she hopes will resonate with primary voters—she is forcing a socially moderate Dingell to demonstrate his progressive bona fides.

On May 23, Dingell teamed up with antigun activist Representative Carolyn McCarthy (N.Y.) on legislation to boost the accuracy of instant background checks for gun buyers. Dingell admits the bill has been in works since 1999 and has nothing to do with Rivers. Political observers think otherwise. Dingell is a longtime National Rifle Association board member who votes points with auto workers and NRA members by talking on the gun-control issue. "This year, Dingell is going out of his way to play up some positions and beliefs that he never held before," says Ed Sarpco, of Michigan-based polling firm EPIC/MRA.

Dingell's clout and c

BUSINESS' WORST NIGHTMARE

Dingell loses to Rivers and is succeeded as ranking member of House Energy & Commerce Committee by fellow Dem Waxman



ELECTRONICS

LASERS ARE ABOUT TO ENTER THEIR BLUE PERIOD

New disks mean vastly enhanced TV and movies



NAKAMURA

The market will be huge, he says, for blue-violet laser devices that he pioneered while at Nichia Corp.

the new recording systems has been the object of intense research in a dozen Japanese labs since the 1980s. It's a blue-violet version of the tiny red and infrared laser diodes that are used to read and write digital information on CDs and DVDs. Shuji Nakamura, the Japanese researcher who built the first blue-violet laser diodes in 1996, believes the market for the component alone will be enormous. Before Japan's big electronics makers can cash in, however, they'll have to avoid a repeat of the standards wars that have dogged the rollouts of DVDs, CDs, and videotapes.

It's easy to understand why Japanese engineers are so beguiled by the color wars. Because the wavelength of blue-violet light is shorter than that of red, the blue laser beam can be focused on a smaller area of the disk. The narrower

Think of them as supersized grandchildren of the CD or as genetically enhanced offspring of the DVD. In a few years, for just a few hundred dollars, consumers will start snapping up next-generation digital recording systems that will employ exotic blue-violet lasers to etch 13 hours of video—more than six full-length movies—onto disks the size of standard music CDs.

With a capacity of about 30 gigabytes of data, compared with 4.7 GB for today's DVDs, the new disks promise a richer-than-ever digital experience. Video games will acquire photorealistic graphics and far more elaborate story lines. And TV viewers will be able to store hours of high-definition TV permanently on low-cost disks. If product-development plans at Japanese electronics companies pan out, the first commercial machines are expected to appear in late 2003. And because all of the new machines will be recorders, not just players, analysts expect consumer adoption to be swift.

The key component at the heart of

ions are not to be discounted. He endorsements from union brass and Michigan Democratic Party officials. also has financial support from the s of GM, Blue Cross Blue Shield, South, Ford Motor, and the National Association of Broadcasters. The , whose contributions tend to fa- Republicans over Democrats 2 to 1, given \$7,000 to Dingell this year. has not voted with us on all the is-, but he's somebody we do respect mously," says NAB spokesman Den-Wharton. One lobbyist whose com- y is supporting Dingell was less ful: "Am I nervous about Waxman? olutely."

ingell has raised \$1.2 million so far, a over half of that flowing from cor- ate and Big Labor political action mittees. That's more than the \$1.1 ion he raised in the entire 2000 ion cycle—and almost twice Rivers' ,000. Even Republicans are writing ks. Suzie Mitchell, a West Bloom- (Mich.) GOP strategist who collect- some \$100,000 for George W. Bush's idential bid, is raising money for Dingell. That's fine with the Rivers camp, which pre- dicted that Dingell's corporate and GOP ties will rally the Left. Says Rivers campaign consultant Chris Sautter: "Big Business wants to make sure that legislation has his stamp rather than Henry Waxman's stamp."

Still, organization- al skills often trump money in primary races, and the four- term Rivers has shown that she can turn out the vote. And while Dingell has the support of union officials, Rivers hopes to woo the rank and file.

has the backing of the Sierra Club other greens, as well as Emily's , a PAC that supports women De- rats. A March poll by Emily's List e Dingell an eight-point advantage, with 4% of voters undecided, Rivers ithin striking distance.

hat should worry Big Business, and is point, it is clearly concerned that John will go down. The question is: shoveling money into Dingell's war st be enough to keep the devil it ws in power?

y Lorraine Woellert in Washington

BUSINESS RECORDS

ingell sides
th business
far more
ften than
Rivers
Waxman

DINGELL
26%*

RIVERS
6%

WAXMAN
6%

ased on a tally
15 key votes in
he last House
session

Data: BIPAC

Spend
some
quality
time
with
your
money.



See inside

On-air weekend mornings.
Check your local listings.

www.businessweektv.com

Brought to you in part by:

savin.
WE'VE GOT WHAT IT TAKES TO WIN YOU OVER™

Science & Technology

The technology is proven, but a standards war, involving most of Japan's tech biggies, is already threatening this latest optical innovation

the focus, the higher the recording density and the greater the overall disk capacity. A CD engraved with a red laser can hold about 1 gigabyte of data, while a DVD holds almost five times that amount. And with blue-violet lasers, capacity should increase a further five to six times.

The technology is proven, but that's no guarantee of a smooth migration. Already, a standards war much like those that have broken out over every major medium since the videocassette is threatening this latest optical innovation. In February, nine electronics companies, led by Sony, Pioneer, and Matsushita Electric Industrial, unveiled a

BLUE HORIZONS

A race is on to commercialize blue-violet lasers, the key to producing a successor to the DVD

1996 Shuji Nakamura, a researcher at Japan's Nichia Corp., develops the first blue-laser diode.

2001 Matsushita and Sony develop their own blue lasers.

2002 A nine-member consortium—led by Sony, Pioneer, and Matsushita—unveils the Blu-ray Disc standard. Toshiba is uncommitted.

END 2002 Nichia is expected to launch sales of the first commercial blue-laser diodes.

standard format dubbed the Blu-ray Disc, which incorporates blue-violet laser technology and sets the recording capacity of the disks between 23 and 27 gigabytes per side. Within the coalition, Sony, Matsushita, and Hitachi have demonstrated prototypes of lasers that meet the requirements.

The group, however, faces competition on several fronts. On one side stands Toshiba Corp., which has refused to endorse the Blue-ray Disc. That's troubling because in the early 1990s, Toshiba led the alliance of electronics and film companies that produced the standard for today's DVD systems, trouncing a competing effort by Sony and Royal Philips Electronics of the

Netherlands. Earlier this year, Toshiba, which continues to head the DVD Forum, demonstrated its own rewritten optical disk, boasting a capacity of 30 gigabytes per side. And Toshiba is not the only holdout: Mitsubishi Electric and Time Warner, both important members of the DVD Forum, have yet to join the Blue-ray Disc group.

There may be legal wrangles as well. Nichia Corp., a small lighting company in western Japan where Shuji Nakamura did his pioneering research, is expected to market the world's first commercial blue-violet laser diode later this year. Nichia, however, has refused to license the technology and has threatened to file lawsuits against any company that infringes on its patents for such diodes. "It has been tough making our own blue laser because we've had a lot of work around Nichia's patents," explains Kazuhisa Yamamoto, the

researcher who last year developed

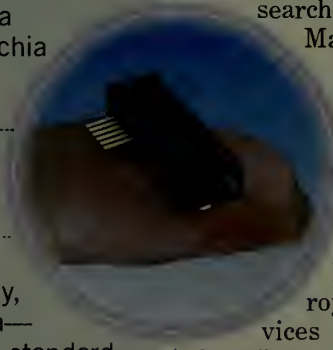
Matsushita's laser, capping a 14-year development effort.

Not everyone is as hemmed in, though. Sony, which is close to developing its own blue-violet diode, expects to nab a nice chunk of the \$400 million a year in industry-wide royalties that blue-laser

devices are expected to generate. Cree Research Inc. of North Carolina, a major producer of light-emitting diodes (LEDs), isn't far behind, according to Nakamura, who is now a professor at the University of California at Santa Barbara. "Cree is in the best position to enter Nichia," says the engineer, who has been advising the U.S. company.

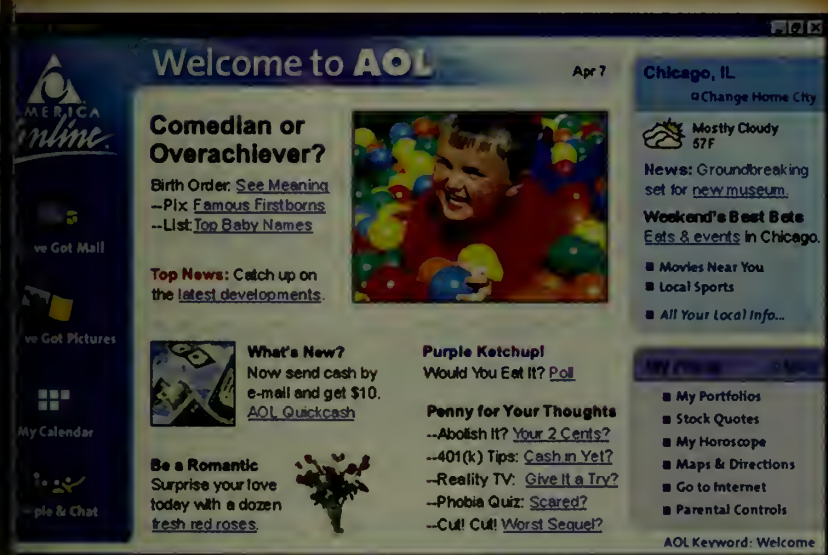
Thanks to Nakamura's move to the U.S. and his partnership with Cree, leadership in cutting-edge lasers could shift to North America. "Japan failed to recognize how brilliant Nakamura really is," points out Gerhard Fasol, head of Eurotechnology Japan, a Tokyo tech consultancy. "It may lose its edge in this important field as a result." True to form, Nakamura is debugging his next breakthrough: an ultraviolet laser that he hopes will make possible disks that hold twice as much as the upcoming generation. That could give rise to a whole new species of couch potato.

By Irene M. Kunii in Tokyo



AOL 70

***Now, simply the best
online experience ever!***



NEW in 7.0:

- ✓ Now, your favorite music when you want it with **Radio AOL**
- ✓ Now, your local news, weather, entertainment, movie show times and more.

As Always:

- ✓ Your security and privacy are protected on AOL.
- ✓ FREE customer service 24-hours a day, on the phone or on ne.
- ✓ Parental Controls help safeguard your kids online.
- ✓ There's never been a better time to join!

**Call 1-800-4-ONLINE
today for FREE AOL 7.0 software
and 1000 hours to try it out!** for 45 days



So easy to use,
no wonder it's #1

Or pick up your FREE AOL 7.0 software at these retailers:

A man with glasses and a red jacket is focused on working on a computer system. He is holding a small component, possibly a circuit board or a connector, and is looking down at it. The background is blurred, showing other people in a similar setting, suggesting a busy environment like a server room or a data center.

The difference between success and failure is 1/1000th of a second. And with so much

at stake, IT managers at SchlumbergerSema can't waste time when it comes to wiring some of the world's largest sporting events.

Which is why they head to the best-of-breed vendors. Servers, PCs, printers, routers, switches and databases are specified from the usual suspects, but they also need comprehensive management software to tie all of the disparate hardware together. And in a recent case, HP OpenView management software perfectly fit the bill.

The assembled infrastructure handled everything from security check-ins to live time stats to e-mail intranets for athletes, coaches and statistic-hungry media—instantaneously. That meant up to 25,000 different system interfaces, including 10,000 live nodes, all controllable from a centralized mission-critical data center. All told, thousands of workers and millions of viewers had real-time stats, updates and forecasts at the instant points went on the board. (Incidentally, the computer system took care of that too.)

Whatever the event, keeping all these plates spinning is always quite a challenge, and HP OpenView handles it by providing monitoring systems that spot trouble and avert downtime. And with so much always riding on a little time, SchlumbergerSema can't spare an instant for a single system holdup.

HP infrastructure solutions are engineered for the real world of business. Because the last time we checked, that's where we all work.

For more information on how HP OpenView software can keep your business racing along, call 1.800.HPASKME, ext. 246. Or visit www.hp.com/go/infrastructure.

Infrastructure: it starts with you.

Bob Cottom
Chief Integrator, SchlumbergerSema

We have hardware that comes from everywhere.
HP OpenView software holds it together.

© 2000 Hewlett-Packard Company. All rights reserved.



invent

EDITED BY OTIS PORT

THE NEWS IN 'SPINTRONICS' SEARCH

PHYSICISTS FROM NEW YORK'S University at Buffalo are leading a team that may have cracked the door to a "spintronics" future. This novel branch of engineering could be the ultimate in tiny electronics. Today, each bit of information is zipping around a silicon chip, which consists of many thousands of electrons. With spintronics, a bit can be shrunk to only one electron, with the direction of its spin determining whether it represents a one or a zero. Spintronic transistors may end up no larger than a single molecule—so small that thousands of chips could fit on one of Intel Corp.'s existing Pentium microprocessors.

Research labs around the world are working on single-electron devices, and several have concocted prototypes. The problem is, most function only at ultracold temperatures. Trying to find a material that would raise the operating temperature to the relatively balmy level of liquid nitrogen, the Buffalo researchers teamed up with physicists at the University of Notre Dame and Pennsylvania State University. The semiconductor they picked is an ultrathin sandwich of alternating gallium antimonide and manganese.

When they measured its properties, they got a shock: absolutely no cooling was needed. "We got lucky," says Buffalo physicist Hong Luo. Even at temperatures all the way up to 260F, as the team reports in the May 27 *Applied Physics Letters*, the device exhibits a type of magnetism that is a key requirement for many spintronics applications. Why this structure works at hot temperatures isn't fully understood, says Luo, "but we're making progress." ■



MICROWAVES: KINDER THAN MAMMOGRAMS

GETTING A MAMMOGRAM CAN BE LIKE GETTING YOUR BREAST caught in a refrigerator door. Though the painful part lasts less than a minute, many women wish there were a better way. In a few years, their wishes may be granted. Two separate teams of researchers—one led by Keith D. Paulsen, an engineering professor at Dartmouth College, and another by Susan C. Hagness, assistant professor in electrical engineering at the University of Wisconsin at Madison—are working on methods that scan for tumors using low-power microwaves. In Paulsen's approach, the patient lies on her stomach and dips her breasts into a glycerine solution. Signals from multiple directions are then combined to form a microwave tomographic image akin to a CT scan. Clinical trials with volunteers could begin this fall. Hagness is taking a different tack: The patient would lie on her back, and the antennas would pass over her breasts. Microwave imaging, in theory, could spot tumors as small as 2 millimeters across, or less than half the size that mammograms pick up. *Faith Keenan*

PUTTING LIGHT IN A BOTTLE

THREE RESEARCH TEAMS LAST year amazed the world by slowing light, then stopping it dead in its tracks—though only for an instant. Now, a group at the University of Michigan has topped that feat by generating light that's motionless from the outset.

It's done with wee mirrors—alumina particles no bigger than 30 nanometers across. That's so small it would take 10,000 to span the period ending this sentence. Pack these nanomirrors together tightly, so the space between them is only a fraction of the wavelength of

light, and the light produced by zapping the particles with an electron beam literally can't go anywhere. That's what Michigan physicist Stephen C. Rand reported at the Conference on Lasers & Electro-Optics in Long Beach, Calif., in late May.

What's a stationary-light generator good for? Rand and materials scientist Richard M. Laine point to several prospects. Already, they've uncorked their bottled light to create the first continuous ultraviolet laser beam—better for certain jobs than today's pulsed-UV beams. The concept also promises laser-based fluorescent lights and brighter display screens. ■

INNOVATIONS

■ Riddell Sports says its new football helmet could help reduce the 100,000 concussions suffered annually in the U.S. Its design aims to provide better protection against blows to the side of the head, which cause 70% of all concussions, according to a study by Biokinetics & Associates funded in part by NFL Charities. Riddell is also sharing the Biokinetics study with its rivals.

■ Jogging may do more than improve fitness—it may help prevent Alzheimer's disease. Scientists still aren't sure what causes Alzheimer's, but medical researchers at the University of California at Irvine were pleasantly surprised by the effects that running had on rats' brains: It boosted the activity of genes known to be associated with learning and memory. The researchers are now digging deeper into the relationship between exercise and healthy brains.

■ A visit to Kentucky's Mammoth Cave may pay off big. Biologists from Grand Valley State University in Allendale, Mich., found a subterranean ecosystem rich in unknown bacteria. One produces a substance that seems to inhibit the growth of blood vessels. They might be used to deprive tumors of the nutrition they need to grow, according to a report by researcher Ryan L. Frisch at a recent meeting of the American Society for Microbiology.

MAMMOTH CAVE



LABOR

CAN THE UAW STAY IN THE GAME?

Its ability to set wages hinges on battles in the South



FAILED DRIVE: Yokich (right) couldn't sway Nissan workers

COMMENTARY

By Joann Muller

Few U.S. labor unions today influence their core industry as powerfully as the United Auto Workers. Since its inception in 1936, the UAW has set wage rates and work standards across the industry. Today, only the airline unions, and perhaps the professional baseball and football unions, have similar muscle.

But now, as autoworkers prepare to install a new leader, the UAW faces the very real danger that it could lose its clout at the bargaining table, much as the steelworkers and other industrial unions have in recent decades. Globalization, coupled with a decades-long slide in membership at General Motors, Ford, and Chrysler, has brought the UAW to a crossroads. The union needs new mem-

bers to keep its strength. To that end, it can push the Big Three to pressure their largely nonunion parts suppliers to stop resisting unionization. But doing so would likely drive up suppliers' costs, squeezing Detroit and ultimately forcing the auto makers to sign less generous contracts. So union leaders have a choice: Will they continue to push for the well-being of today's Big Three members or will they risk their clout and resources on organizing nonunion factories?

The challenge falls to Ronald A. Gettelfinger, a tough and pragmatic UAW veteran who takes over the presidency of the 700,000-member union on June 6 (page 80). Gettelfinger inherits a mixed legacy from his predecessor, Stephen P. Yokich. During his seven-year reign, the fiery Yokich won generous wage and benefit hikes for Big Three workers and protected retirees' pensions and health-care benefits. But in doing so, he may

have sacrificed the union's future by failing to exert its bargaining muscle with the Big Three to expand membership.

True, Yokich appointed a dynamic leader named Bob King to head recruitment and gave him more resources. But half the 80,000 members who joined since 1998 aren't in the auto industry. Despite some two dozen victories in small auto-parts plants in the South, the UAW still represents only 10% of all parts workers. And the big trophies, assembly plants run by foreign carmakers, also remain elusive (table).

Unless Gettelfinger reverse the trend, the union's considerable influence could fade. Until now, the threat of unionization forced foreign-owned factories to boost wages close to the UAW's \$25 an hour. If U.S. auto makers are really losing market share to foreign-based rivals. As transplant factories open in the U.S. and more Big Three jobs disappear, the pressure to match Big Three wages will lessen.

If that happens, the Big Three will have to take a harder line with the UAW. To avoid such a fight, company officials would love to



Gettelfinger organize the transplants. Although they won't do so publicly, the pressure on the Big Three increases as they fail to organize elsewhere," says one GM insider. Warns for UAW President Douglas A. F.

er, now a labor studies professor at Wayne State University in Detroit. "Sooner or later—and it's probably sooner—the Big Three are going to fail. We're becoming noncompetitive, unless you organize the transplants. We're going to have to modify the proposals we make to you."

The defining moment in the UAW's trade-off of current wages vs. future growth came in 1999 when it tried to organize a Mercedes-Benz assembly plant in Vance, Ala. Daimler Benz's purchase of Chrysler Corp. gave the UAW potentially unprecedented leverage at the factory. With Chrysler and

You Can See The Value Of A Well-Planned Manufacturing Strategy. A Better Product Faster For Less.

**Build-to-order flexibility means you don't have to
follow the leader. You are the leader.**

When you link your manufacturing strategy to your business strategy, the synergy is dramatic. It creates a seamless information environment that's far more productive. Allowing you to move from build-to-stock to build-to-order.

How? Complete Automation™ from Rockwell Automation. Everything you need to maximize efficiency, reduce inventory expense, increase equipment availability, and respond preemptively to changing market conditions.

We have a full range of world-class products that provide superior performance for every industry and application. Backed by global technical support and technology partnerships. And an extensive portfolio of consulting services. All designed to help you deliver quality products, faster, at lower cost. By maximizing the productivity of all your assets, equipment, and people.

Companies that view manufacturing as critical to their success have made us their automation solutions provider. And a valuable business partner. Rockwell Automation. Completely focused on automation. Completely dedicated to our automation customer. For more information, visit our web site: www.rockwellautomation.com.

**Rockwell
Automation**

Copyright © 2002 Rockwell Automation, Inc. All rights reserved.
AD BSCS2103-R1P

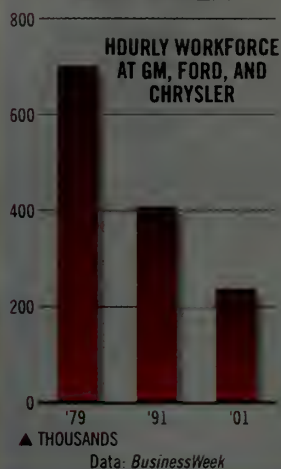
The Workplace

cedes under one corporate umbrella, union leaders hoped to use 1999's national contract talks at Chrysler to pressure Mercedes to drop its fierce resistance to the union. But in the end, Yokich accepted a generous contract for Chrysler workers and squishy promises in Alabama that changed little.

King has since launched more drives at the transplants. He now has campaigns under way at the three largest: Toyota, Honda, and Nissan. But since the union lacks the leverage it holds at Mercedes, the companies are unlikely to drop their antiunion stance, and the campaigns are expected to fizzle. Just last October, workers at Nissan Motor Co.'s Smyrna (Tenn.) complex voted 2-1 against joining the UAW after the union's fourth run at the factory in 12 years. The UAW blamed Nissan for suggesting that the factory could close or move to Mexico if labor costs got too high.

Eventually, if the dynamics don't shift, it will be the foreign manufacturers that set industry wage rates, not

UAW IS SHRINKING ALONG WITH THE BIG THREE...



...AND HAS FAILED TO ORGANIZE MOST TRANSPLANTS

(2005 projected employment*)

HONDA	16,230
TOYOTA	14,915
NISSAN	9,300
BMW	4,300
MERCEDES	4,000
SUBARU-ISUZU	3,200
MITSUBISHI**	3,100
HYUNDAI	2,000
TOTAL	57,045

*Includes announced expansion plans

**UAW-represented

Data: BusinessWeek

the UAW. In recent years, the Asian and German auto makers have launched a massive U.S. building boom. Existing plants are expanding, and new ones are popping up across the South, a region traditionally hostile to unions. Overall, foreign-based manufacturers, which now operate 17 U.S. factories, plan to boost production by 40% over the next three

years and add 10,000 work. With wages starting at \$14 an hour—reaching \$25 for assembly jobs—these factories offer prosperity that many displaced Southern textile and steel workers have never known. “We’re doing without the union,” says S. Brown, an hourly worker at Honda’s new minivan plant in Lincoln, Ala.

Still, Gettelfinger may be more aggressive than Yokich. For instance, in 1999, the UAW lost an organizing drive at ZF Industries Inc. after managers told workers that the company could lose a contract to supply axles to Mercedes Alabama plant if they joined the union. Gettelfinger asked Ford, which has a separate joint venture

with ZF, to help him persuade workers to drop the scare tactics. It did, and workers voted overwhelmingly to join the union.

That was a critical win. But unless the new leader can also conquer foreigners, the UAW will lose its status as the last commanding industrial union.

With David Welch in Lincoln, Ala.

NEXT UP: A NO-NONSENSE HOOSIER

Incoming United Auto Workers President Ronald A. Gettelfinger couldn’t be more different from Stephen P. Yokich, his predecessor. Yokich drinks and gambles and is feared in the union as a temperamental man who puts his arm around someone one day only to blast the person in an angry tirade the next. While Gettelfinger can be just as abrasive, he’s also a straitlaced, deeply religious man who doesn’t smoke, wager, or use alcohol. Raised with 11 siblings on an Indiana farm, he worked at a chicken hatchery as a teenager, married his high school sweetheart, and earned a business degree by taking night classes at Indiana University.

The 57-year-old Gettelfinger hired on at Ford Motor Co.’s Louisville assembly plant in 1964 after a stint in the U.S. Marine Corps Reserves.

Gettelfinger used to scour phone bills for unauthorized calls

THE INCOMING UAW HEAD

As a chassis repairman, he soon became active in the union, rising to local president in 1984 and to regional director for Kentucky and Indiana in 1992. In 1998, he was promoted to vice-president of the UAW’s Ford department.

One trait the two men do share is a reputation for tough bargaining. Gettelfinger won member acclaim in 1999 contract talks when he pressured Ford into giving lifetime wages and benefits to hourly workers whose jobs were affected by the

2000 spin-off of the company’s parts unit, Visteon Corp. Even today, Ford will rehire a laid-off Visteon worker or pay until retirement.

Still, Gettelfinger knows he sometimes must bend. Last summer, after Visteon failed to sell two of its three money-losing automotive glass plants, Gettelfinger agreed to cut 235 jobs and let nonunion contractors do maintenance work at them.

“Ron understands what has to be done to be competitive,” says Visteon human-resources Vice-President Robert H. Marcin.

Gettelfinger is known as a hands-on manager who prizes first-hand knowledge rather than filtered summaries. But some call him a micromanager who has been known to pore over staffers’ telephone bills looking for personal calls. Still, a hands-on approach may not be all bad if the UAW has any hope of halting its decades-long decline.

By Joann Muller, with David Welch, in Detroit



VRROOM



Only a Xerox Document Centre® shifts your office into overdrive. It prints, copies, faxes, scans and e-mails like no other. Saving you time and money.

There's a new way to look at it.

formance proves it. Top companies know it. It's why 86% of FORTUNE 500® companies rely on Document Centre Multifunction systems to save time and money.* Our unique design provides



maximum network performance. The result is cost-crunching productivity that puts your business way ahead of the pack. To find out how we can save your business time and money, get in touch today.

Visit: **www.xerox.com/vroom** Call: **1-800-ASK-XEROX ext.VRROOM**

THE DOCUMENT COMPANY

XEROX®

Document Centre features are optional ©2002 XEROX CORPORATION All rights reserved XEROX® The Document Company® Document Centre® and There's a new way to look at it are trademarks of XEROX CORPORATION

Verizon Wireless will take your business to the next level – and everywhere else.

Introducing

BUSINESS SOLUTIONS

All your wireless business
needs all in one place.

Verizon Wireless Business Solutions provides an array of technically advanced products and services for your business. Each is customized to your company's varied domestic and international voice, data, and messaging needs.

Verizon Wireless can keep your whole office in touch – whether you're across the hall or across the world. With international wireless programs like Global Services, your business runs smoothly, allowing you to keep your wireless phone number when traveling internationally so you'll always stay in touch.

Verizon Wireless also helps make your business more efficient. With consolidated billing and national pricing plans, everything is easy and convenient. And with Express Network, the fastest wireless Internet access available, you can download faster, e-mail quicker, and conduct business more productively.

Business Solutions. Only from Verizon Wireless, the largest wireless network in America. Making wireless work better for you and your business.

1.866.VZW.BTOB



Drive responsibly.
Call with care.

verizonwireless
We never stop working for you.

Network claim based on industry reports of carrier-operated and managed covered population.

Business Goes Wireless

Everybody's Doing It

The success of wireless and mobile software applications is helping companies achieve a rapid return on investment. Applications are at an early stage but are developing at top speed. Wireless e-mail, wireless local area networks (Wi-Fi) and real-time financial trading are already remarkable realities. And, in the not too distant future, everything possible on an Internet browser is likely to be possible on a hand-held wireless device.

Wireless technology is changing lives. For example, doctors and pharmacists practicing with the San Jose Medical Group in California write and fulfill prescription orders on a wireless system. Auto insurers can now settle claims in the field. Location knowledge allows valuable cargo to be precisely tracked. Business users can travel the world and still make and receive calls, send text e-mail messages, browse the Internet, access corporate databases, and synchronize their calendars with their office desktop system.

And more is coming. CIOs are moving wireless and mobile solutions higher up on their "to do" list. At the same time, they are closely watching associated costs, which are becoming more extensive as the number of products, services, devices and software options expand. The CIOs are also asking more difficult questions and are demanding clear answers before signing off on projects. Research is beginning to show real competitive benefits and increased competitive advantage from the use of mobile applications.

This section will help readers plan a wireless solution, and discuss the options and strategies of network carriers, as well as the applications available today.

Planning Your Wireless Strategy

You know you want to try wireless, but where do you start? Instead of gravitating toward a "cool" Blackberry device or setting up a Wireless Access Point, think in clear and practical terms about how you're going to use it. Where will it be used; who is going to use it; how much data will be sent or received and how often will users need to transmit or access messages.

"This massively reduces the set of choices you have and, therefore, it becomes a whole lot easier to research," said Ian Hayes, president of Clarity Consulting of South Hamilton, Massachusetts and author of a forthcoming book entitled "Just Enough Wireless Computing: A Framework for Managers." Hayes suggests that you take the Five W Test:

(1) Why do you want a wireless application?

The answer will determine how much you'll want to spend. If you want to do it because it's cool, the money you spend is likely to have limited business application. If you have to do it because your competition is moving into it—if it's a matter of business survival—you'll probably want to spend a lot more.

(2) Who is going to use the wireless application and how?

The answer will help define the devices and interfaces that make the most sense. "If I give a device to a computer person, they are already comfortable with the technology," Hayes says. On the other hand, if you give a device to an emergency room physician, who needs to be able to access

crucial information easily and quickly, user friendliness counts enormously.

If it's for a salesperson to use for presentations, the appearance of the device matters. If it's for a package delivery person who needs to scan packages coming off a truck, how the device looks is not a consideration.

(3) What is the specific application for?

A building inspector filling out a form on a PDA doesn't need to synchronize more than once each day. A stock trader, however, needs instant verification that a trade has been made, and the communication has to be secure. "I also need a method of ensuring the integrity of the data going back and forth, in case we have a failure," Hayes declares.

These requirements define the application architecture, and will influence its cost.

(4) When is the application going to be used?

The answer has implications for which network is appropriate and how data is managed. If the user needs to be alerted when stock prices exceed certain thresholds, the device must be constantly connected.

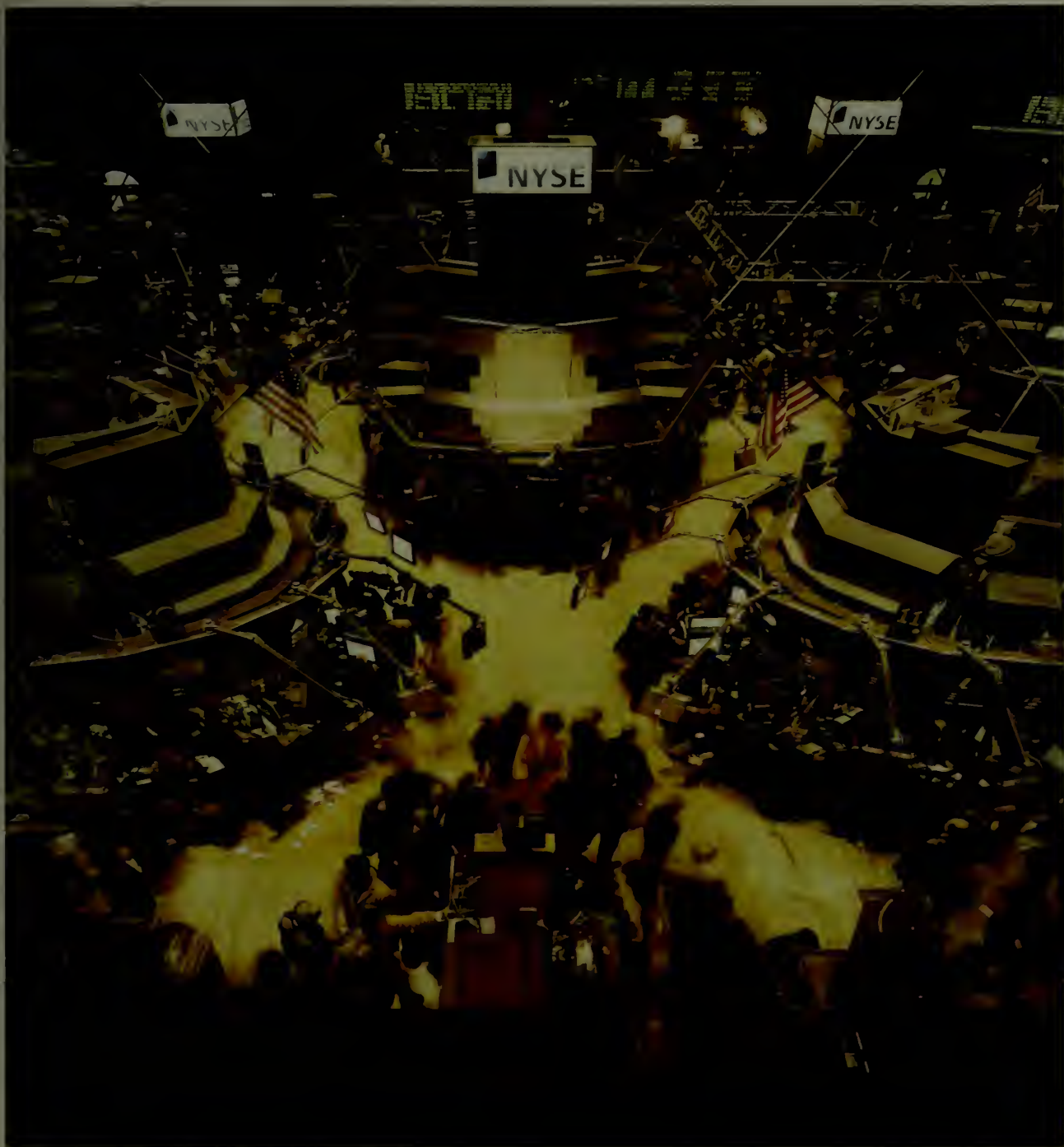
If mobile salespeople working in the city where good wireless coverage is available have to perform administrative tasks when they go home to the suburbs—where coverage may be erratic or non-existent—a site-specific solution would have to be found.

(5) Where is the application going to be used?

The answer dictates which network is appropriate as well as what device would be best. If a mobile sales force is deployed in an urban area where wireless coverage is good, radio frequencies should be sufficient.



CIOs are moving wireless and mobile solutions higher up on their "to do" list.



When nearly half of the Fortune® 1000
count on you, a pattern starts to emerge.

When leading businesses need a wireless partner to keep things moving, they turn to us. That's why we've emerged as the number one wireless carrier for business data users. With Cingular, you get everything from business calling plans and corporate email to interactive messaging and CRM solutions—all built around your company's specific needs and goals. Maybe it's time you noticed the shape business is taking to express itself. To see how we can build a wireless solution around you, give us a call at 1-866-446-7599 or visit us at www.cingular/business.com. Also, feel free to download our "orange" paper, *Executive Guide to Enterprise-Wide Wireless Data Strategies*, when you visit our website.



What do you have to say?™

But if the user works for a delivery company with distribution into rural areas, a satellite solution would be needed to provide coverage. Satellite links are expensive, so the firm's application developers would have to write the application to send small bursts of information only when needed.

"If you think top down like this," says Hayes, "it will help you conceive an intelligent strategy for your first forays into wireless."

Defining Your Wireless Requirements

You've made the decision to try wireless technology. Now it's time to get specific. How do you define your requirements? It's important to clarify your business needs, now and for the future.

"Get your internal technology and business groups together to work out a game plan," says Phillip Redman, research director of Wireless Mobile Networks for the Gartner Group of Stamford, Connecti-

cut, a leading technology analyst firm. Business managers need to be closely involved in defining the company's wireless needs. "The IT group may be willing to help out with support, implementation and management, but they may not thoroughly understand the needs of the business team."

Once business needs are defined, you can begin to focus on the application. Things formerly done in the office can now be done effectively, efficiently and on the go. For example, a salesperson's time might be better spent on updating information onto a PDA device, such as a Palm Pilot, instead of on a desktop computer. An insurance adjuster could

process a claim while holding a PDA in his hand, broadcasting back to headquarters. Mobile and wireless are not exactly the same. Mobility is about entering or using information while out of the office. It's not about high speed. On the other hand, the strength of wireless is immediacy. "The difference is in the *timeliness or immediacy* of the information," says Redman. Network carrier service fees of \$50 or so per month per user should be considered. "Up to 50 percent of your costs can be cut by using a basic mobile solution," Redman concludes.

Wide Range of Hardware Options

Once you know which application you need, it's time to choose your wireless handheld device. Today, there are many choices, ranging from notebook computers, to PDAs, to cell phones. PDAs are more

Things formerly done in the office can now be done effectively, efficiently and on the go.

data-oriented, so if your application requires heavy use of e-mail, a PDA might be the best choice. For short messages to customers or co-workers, a cell phone will do the job. Are the two merging? Redman doesn't think so. "A merger device would be a compromise — too big to be a great phone and too small to be a great computer," he says. "It wouldn't fulfill the needs of the majority of users."

Clearly, the device choices are very

personal and available for all budgets. One company offers a cellular phone made from titanium. The price: \$21,000.

Software Translates to Useful

The mobile device operating system (OS) war has resolved itself to two major choices: Windows CE from Microsoft and the Palm OS from Palm Computing. Many development tools and off-the-shelf applications are available for those two platforms. In many

Wireless Networks: Security Options

If you spend the money to go wireless, take the time and effort to make it secure. When data is transmitted through the air, a security risk is always present.

- Users of the popular Wi-Fi standard for wireless local area networks [802.11 networks], where the signal is available for anyone to use, should clearly recognize the risks. Wi-Fi provides no security at all.
- The next step up offers 40-bit or 128-bit encryption, and the Wired Equivalent Privacy (WEP) protocol, an encryption method that uses a "static" key. This is appropriate for telecommuters and small businesses.
- A still more secure alternative is "dynamic" key encryption, which is more difficult for hackers to crack, and is appropriate for mid-market and larger enterprises.
- The most secure alternative, a Virtual Private Network (VPN) offers end-to-end security and is a single-user network built within the public structure.

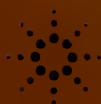


the wireless engineer
dreams in streaming video



FORTUNE
100 BEST
COMPANIES
TO WORK FOR 2002

Wireless engineers dream of putting more of the world in the palm of everyone's hand. And no other company is doing more to help them achieve it than Agilent. By providing test solutions and services that help design, deploy, optimize and manage networks. And technologies that help shrink handset size and speed product development. So everything from simple e-mails to real time streaming video will become a wireless reality. Sooner than you dreamed possible.



Agilent Technologies

dreams made real



cases, these applications can be optimized for the wireless device or for the information that needs to be exchanged. The narrowing down of mobile OS choices has dramatically reduced wireless solution costs, according to Redman.

However, major software application suppliers aren't supporting mobile and wireless applications to the same degree as those running on more established hardware. For example, if network service is not available 100 percent of the time, the application would have to store data or messages, until network service is available. "In many cases, existing providers haven't done a good job of offering this support," Redman says.

Still, Microsoft is offering mobile access to its database and e-mail systems. Siebel offers a mobile-oriented customer relationship management package. Oracle's entry is Oracle Lite, and package suppliers, SAP and PeopleSoft, have versions supporting wireless. Their challenge is how to support the many wireless hardware devices on the market in an economical way. As demand for wireless applications grows, Redman expects the major software package suppliers to respond with better applications. "Today the demand is still very small," he says.

For developers, a move is on to write a single application available for any type of device. Although it used to be necessary to write to the Wireless Application Protocol and to employ Wireless Markup Language to display a user interface screen (as in standard Web pages), today, XHTML can be used to display an application on either a wired or a wireless device.

The user interface built with XHTML has a degree of intelligence about the device. It knows whether the display can show two lines or six lines, whether it is a tiny screen or a 17 inch monitor. "The movement is to separate the content and its format," Redman observes.

Questions to Ask

Once you have determined which network carrier you want to work with, ask about their strategic plans, suggests Iain Gillott, founder and president of iGillott Research, a wireless consulting firm based in Austin, Texas. Ask if their network speeds will be

increasing and when. Also, ask if you'll have to buy new wireless hardware in a year because the carrier may be supporting different devices down the road. You'll also want to know what range of devices they support. "You want to ensure the carrier offers more than two phones and one modem," Gillott suggests. Be aware that carriers are fiercely competing for your business; try to verify their claims.

After you've completed your research on major hardware, software and network service providers, it would be worthwhile to research smaller, independent wireless service companies to see how they can help. "These companies can enable you to get your applications mobiles quickly," says Gillott. Check out Wireless Knowledge and Everypath. "These providers specialize in

wireless applications and have done many implementations." Ask preferred vendor partners what smaller service firms they would recommend. "Pick their brains," Gillott says. "Choose a vendor with experience."

Finally, don't commit too much to an initial wireless project. "Take baby steps," Gillott advises. Remember, you may have to handle the training for those who will be using the wireless application; it would be a mistake to assume they won't need it. And know what your competition is doing. Be prepared to defend your turf.

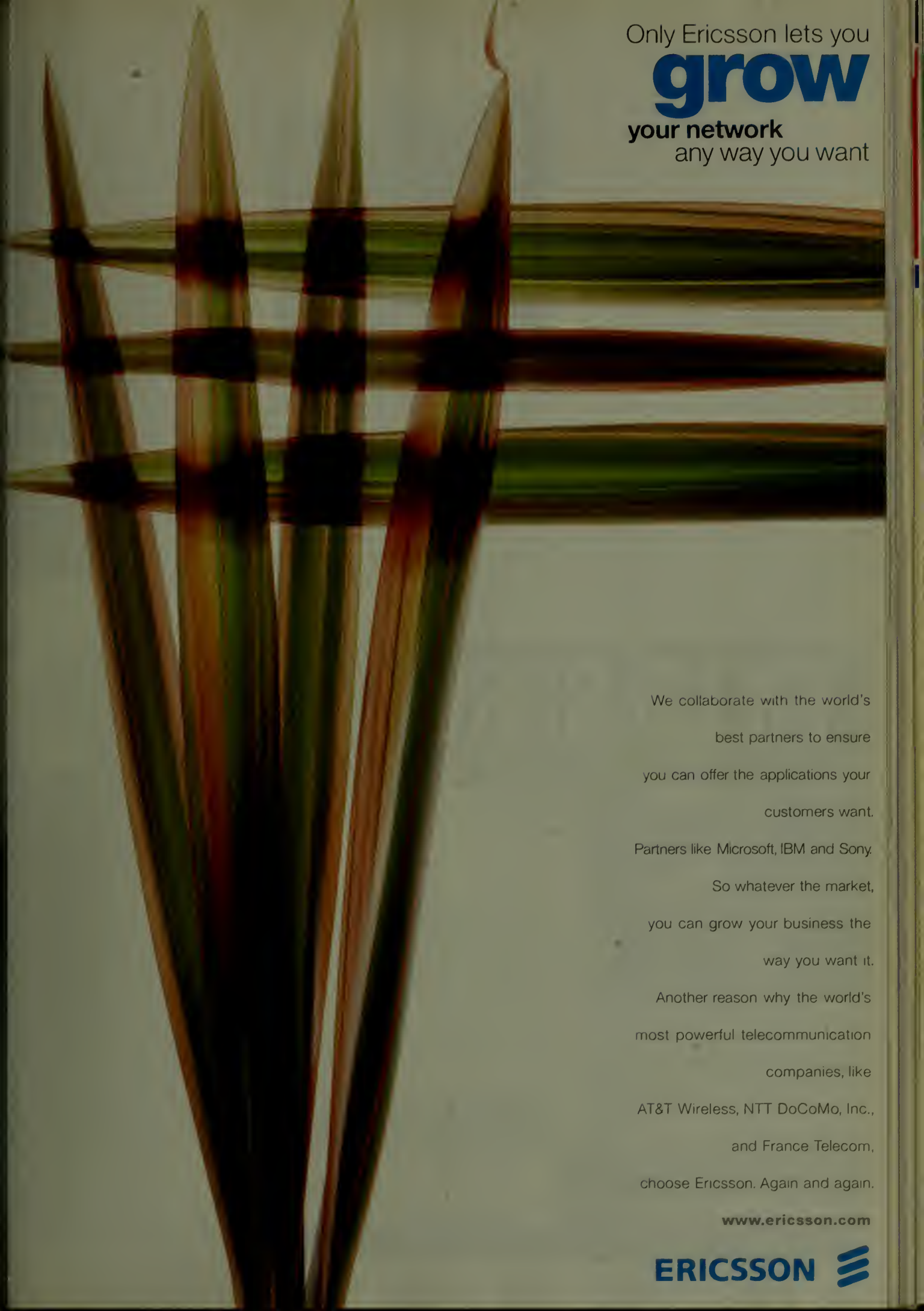
Carriers Seek Enterprise Customers

Wireless network carriers are looking to win more business from higher-paying enterprise customers. The hope is, of course, to fund more rapid network upgrades. "Wireless data is seen as an opportunity to increase revenue per use," says Susan Welsh de Gromdo, director of the Strategic Consulting Group, Washington, D.C.

The main carriers are upgrading to higher-speed packet services, which will enable the development of a wider variety of wireless applications than are available today. For example, Sprint, AT&T Wireless

Be aware that carriers are fiercely competing for your business; try to verify their claims.





Only Ericsson lets you
grow
your network
any way you want

We collaborate with the world's
best partners to ensure
you can offer the applications your
customers want.
Partners like Microsoft, IBM and Sony.
So whatever the market,
you can grow your business the
way you want it.
Another reason why the world's
most powerful telecommunication
companies, like
AT&T Wireless, NTT DoCoMo, Inc.,
and France Telecom,
choose Ericsson. Again and again.

www.ericsson.com

ERICSSON 

and Verizon, have concentrated on voice and have limited circuit switch capability to deliver data. In contrast, Cingular Interactive operates the packet-switched Mobitex network at 8 Kbps, and has a high share of the market for users of the Research in Motion (RIM) hand-held devices running the Blackberry software for text e-mail communication.

"We have over one million business data subscribers on our networks," says Tim Hogan, executive director of business marketing for Cingular, based in Atlanta, Georgia. And, although customers have been satisfied, there's still a demand for services running at higher speeds. "For future applications, it would be great to have land line speeds on wireless, but the reality today is that mission-critical applications have to use the bandwidth available," Hogan says.

Still, the speed at which information moves is improving all the time. FedEx Ground, for instance, switched to the Cingular wireless network in 2000. All the delivery data captured by handheld



Everyone is getting into this high-speed game, but the reality is, if you can't prove ROI, it doesn't matter how fast it is.

scanners is transferred to FedEx Ground mainframe computers when the scanner is placed in the cradle in the delivery van. About 10 minutes later, the information is available to customers. AAA roadside assistance, fleet vehicle operators use the RIM 950 Wireless Handheld device with

interactive messaging and other features running on the Cingular wireless network. As a result, AAA reports customer-wait time in many regions has been reduced by up to 15 minutes per call.

Next Generation

The next-generation packet switching networks will provide integrated voice and data capabilities, but analysts estimate that these will be at least two years away from being widely available. Everyone is getting into this high-

speed game, but the reality is, if you can't prove ROI, it doesn't matter how fast it is.

Infrastructure providers, who may not be visible to the end customer, support carriers by building the switches and base stations that determine the capacity and speed of service. Companies such as Ericsson, Lucent, Motorola, Nortel and Siemens are investing in the network infrastructure, each making huge bets on new technologies, such as WCDMA or alternative bandwidth approaches. The tremendous financial risks, as well as a challenged telecommunications sector, magnify the difficulties traditionally associated with making developing technologies available to a broad public.

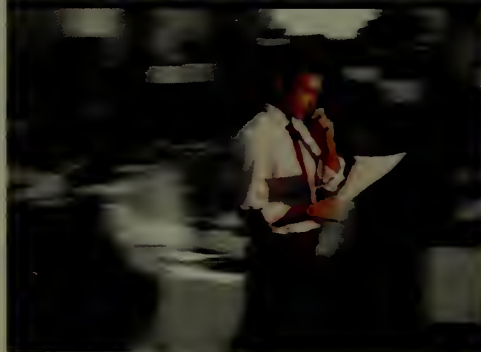
Carriers are in hot pursuit of the business user, who yields higher revenue on average than a voice customer. According to de Grimaldo of Strategic, "This year we are seeing the launch of much more enterprise and mobile service professional packages from the carriers." The carriers hope to reduce "churn" or customer turnover rate by providing more customized services such as e-mail and calendaring, which are more difficult for users to abandon abruptly.

VoiceStream, for instance, is trying to win business customers over to its iStream service and WirelessInbox offering, that support access to Microsoft Outlook e-mail and calendar systems from a cell phone. Changes can be made even when the user accesses e-mail from a desktop PC.

Carriers are also seeking to distinguish themselves by partnering with smaller firms that offer innovative technology. For

FIELD SERVICE

MANAGEMENT Conference & Exposition



June 19-21, 2002

Hynes Convention Center • Boston, MA

August 28-30, 2002

Jacob K. Javits Convention Center • New York, NY

Produced By:



Priority Code: RTSUW08

www.FSM.DCI.com

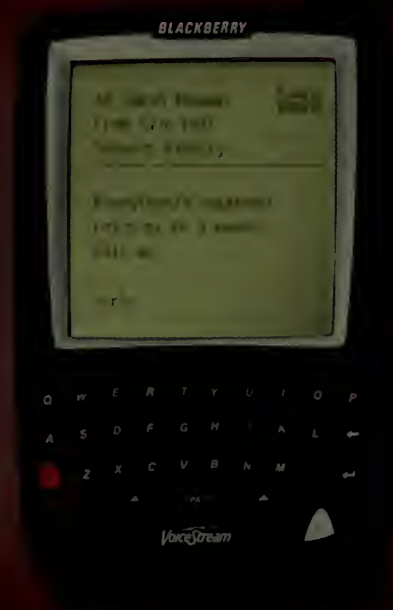
Mission-Critical Issues to be Discussed:

- **Field service management optimization** - new opportunity or oxymoron?
- **Strategies, tactics and operations** of field service management
- **Field force automation** - arming the field service force with wireless & mobile devices
- **Product selection** - what's right for your company and initiatives?

FREE EXPO PASS
With Your Conference Registration

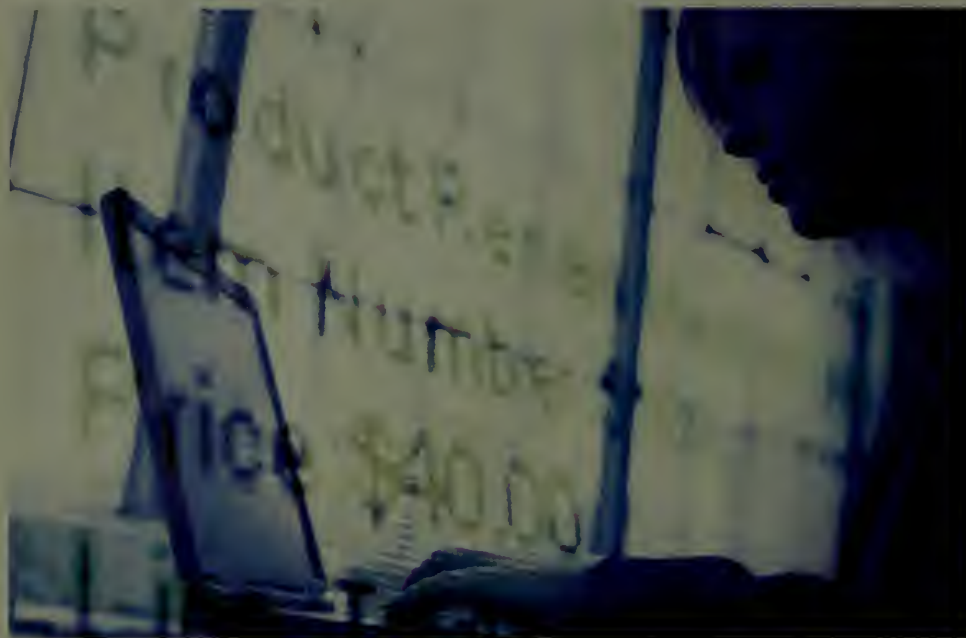
For more information or to register
call: (978) 470-3880

For exhibiting opportunities call:
(978) 470-3870



T MORE SIMPLICITY IN YOUR LIFE WITH THE FIRST BLACKBERRY THAT'S ALSO A PHONE.
 t the new BlackBerry with an integrated phone and you get nationwide e-mail and voice service.
 nething only VoiceStream can offer. How do you get it? Go to voicestream.com or call 1-866-VSTRB2B.

VoiceStream
 Good Wireless.™ ••••• Mobile.



example, Nextel Communications has entered into a closer partnership with RadioFrame Networks of Redmond, Washington because the firm has developed the means to help carriers seamlessly shift customers within a building from one wireless network to another.

And David Murashige, vice president, strategic marketing, wireless networks, at Nortel, says that Wi-Fi is a good complement to 3G speeds. "The important factor is how you provision for seamless service between the public domain and the wide area network." Nortel offers carriers several products to help; today, the overall focus of the wireless arm of Nortel is to support the move to "always on" wireless data services.

Some companies now offer products to carrier and infrastructure providers which monitor and test networks to make sure they stay up and running. A good example is Agilent Technologies, a spin off from Hewlett-Packard, which offers housing test, measurement and communication equipment. A major part of the \$8.4 billion company's annual business comes from telecommunications, like recently announced products to help carriers serve mobile customers who want to roam between different wireless networks without losing the connection.

A final note to wireless customers: Try to stay up to date with what's happening behind the scenes of the wireless industry. It will save you money in the long run.

Having The World in The Palm of Your Hand

The future of wireless technology has implications for the clothes you wear, the devices you carry and your social life in general. Here are some notions as to what's coming in wireless from Ian Pearson, futurologist with BT Exact Technologies, the research and services arm of British Telecom:

Symbiotic Networking – Devices that have the ability to set up networks automatically are already available on a limited basis. "The devices will corporate and self-organize," Pearson says. The first example of such a device is from a company called Cybiko, which offers a small game console aimed at the teenage market. If, for example, the device is carried onto a train, it searches for a similar device within a 300-foot range. If it finds one, the two lucky owners can immediately start playing a game.

Personalization Devices – Here's an example from Rocking Frog, a subsidiary of British Telecom, which offers a PDA running contextual middleware with knowledge of the user's location and personal preferences. The device's search technology filters information based on its relevance to the user's interests, which is derived from a personal profile built up over time. Rocking Frog is targeting the product to mobile providers and ISPs. Test projects are underway with Weities

to provide travel services and, with Flu or Flame, a mobile dating game, in which geographically close players with similar profiles have the opportunity to flirt via a short message services (SMS) exchange.

Ultra Wideband – A short-range, high capacity link in the range of hundreds of Mbps. Possible applications include use by public safety officials to see through walls. This technology may also permit portable wireless devices to communicate with each other. Examples: electronic cash card, biometric cards and ID cards. Commercial use is several years off.

Location-based Services – The capabilities, inherent in 3G networks, allow devices to be precisely located. This makes socializing much easier; you will be able to track where your friends are in real time," Pearson advises.

Identifier Tags – "We're experimenting in the U.K. with putting chips inside clothes," says Pearson. "These will allow stores to recognize the shopper's preferences. All this information will be available on a handheld device.

Author: John P. Desmond (john_desmond@king-content.com) of King Content Company offers high technology publishing services. Visit: www.king-content.com
Design: Sundberg & Associates Inc
Produced by: Frank Long, International Media Associates, Phone: 508.888.3959
E-mail: flongima@aol.com

Advertisers' Web Addresses

Agilent Technologies
www.agilent.com

Cingular Wireless
www.cingular.com

DCI
www.dci.com

Ericsson
www.ericsson.com

Nortel Networks Corp.
www.nortel.com

Verizon Wireless
www.verizonwireless.com

VoiceStream
www.voicestream.com

For information about Special Advertising Sections, e-mail Stacy Sass McAnulty at: stacy_sass-mcanulty@businessweek.com.



Meet Betty. Professional Multitasker.

Power Mom.

**And a woman brimming
with new revenue opportunities.**

Whether she's in the office, at an off-site meeting or shopping at the market, wireless technology defines Betty's world. And it's these

uncompromising wireless users who are the inspiration behind Nortel Networks™ industry-leading Always On wireless technology. This means exciting, new revenue opportunities for network operators – tiered, premium services that serve as the foundation for sustained operator profitability and differentiation. Nortel

**#1 in Q1 2002 Global
Contract Wins***

Networks open architecture exploits packet technology's ability to scale efficiently and cost-effectively, helping

reduce the cost of transporting ever-growing data traffic. So, operators can reduce costs while adding revenue from millions of discriminating wireless users such as Betty, who will continue to demand the benefits of seamless wireless services. It's just one more way Nortel Networks is making the Internet what you need it to be. To learn more, visit nortelnetworks.com/alwayson.

Nortel Networks, the Nortel Networks logo and the Globemark are trademarks of Nortel Networks. ©2002 Nortel Networks. All rights reserved. *Based on announced Q1'02 global contract wins.



Recessions come and recessions go, but one thing remains constant: Americans love a bargain. No one knows that better than Kathleen Mason, president and CEO of quirky retailer Tuesday Morning Corp., a purveyor of deeply discounted name-brand gifts and home furnishings. Her customers typically line up hours before regular "event sales" that start—when else?—

Tuesday mornings, to snatch up such items as a 20-piece Edgewood china dinner set for \$69.99. And clearly the bargain-hunting extends far beyond those on a tight budget: While Mason was attending a recent charity event at the home of a leading Dallas businessman, the executive's wife proudly showed off the Tuesday Morning treasures that shared space in her cabinets with the fam-crystal.

Tuesday Morning has thrived in a roller-coaster economy thanks to a keen focus on value and a willingness to break the rules. No one says you can't sell toys and Donna Karan quilts in warehouse-style stores in second-tier shopping malls? For that matter, who says you need a regular schedule? Tuesday Morning is closed in the few months of January and July, and also sporadically shuts stores throughout the year to restock new products, which are typically bought direct from manufacturers trying to unload excess inventory. Occasionally, it buys inventory closeouts from discount retailers, such as HomeGoods.com Inc. Says Mason: "Our customers never know what they're going to find in a Tuesday Morning store, but they know it will always be good."

It's also good for the bottom line. During the past three years, profits at the 481-store chain have increased by an average of 18% per year, to \$33.7 million.

Tuesday Morning's sales rose an average annual 18% during that time, to \$665.8 million. The performance was good enough to land the company in the No.29 spot on *BusinessWeek's* annual ranking of the 100 fastest-growing small companies.

Like many of the entrepreneurs behind our Hot Growth list, Mason had to overcome plenty of obstacles to get this company in fighting trim. When the 25-year retailing veteran arrived at the Addison (Tex.)-based chain in August, 2000, the off-price retailer HomeGoods Inc., Tuesday Morning's chief executive had recently died. Goods were piling up in a jumble of warehouses, keeping them from arriving in

time for store sales. Mason centralized the operation and added new sorting equipment and computer systems to solve the snafus.

That's typical of the challenges at small, fast-growing companies. They're riskier by definition. But those that rise to the top demonstrate how persistence, deft management, and innovation can overcome self-inflicted woes and economic turmoil. Many of our pint-sized performers also benefited in recent times from focusing on consumers, rather than catering to the industrial or overseas markets that have been harder hit in the downturn. That's true of No.1 Singing Machine Co., the largest U.S. seller of home karaoke machines (page 98), and No.96 Fred's Inc., a chain of discount variety

stores. "Consumers have spent throughout the recession," notes Mark M. Zandi, chief economist at Economy.com Inc.

It shows: Our top 100 boast average annual sales and profit growth of 28.7% and 61%, respectively, over the past three years. That compares with 10.3% sales growth and a 23.8% profit decline for the Standard & Poor's Industrials Composite Index. And the Hot Growth stars averaged 15.4% return on capital vs. a moderate 6.9% for the S&P Industrials.

This stellar performance hasn't been lost on bargain-hunting investors, who have turned away from many overvalued corporate goliaths amid the economic uncertainty and a rash of accounting scandals. The Russell 2000, a small-company stock index, has risen 29% since March, 1999, vs. a 14% drop for the S&P 500 index. And fans of small-company stocks argue that this recovery still has legs. The recent run-up still lags far behind the surge for small-caps through the first three years of the '90s bull market, when the Russell 2000 grew 118%, notes

Satya D. Pradhuman, chief small-cap strategist at Merrill Lynch & Co. With valuations still at historically low levels, that should mean a few more years for these small-cap stocks to run, he predicts. "There is a shift back to the philosophy that small is good," agrees Michael Balkin, who co-manages the William Blair Small Cap Growth Fund, one of the best-performing small-cap funds over the past two years.

To find the hottest of the bunch, *BusinessWeek* starts with publicly held companies that have sales of \$50 million to \$1.5 billion. We rank them based on their sales and earnings growth and average return on capital—a measure that shows how effectively they're using their funds. We take those

HOT GROWTH COMPANIES

The top 100 have lots to brag about: annual profit growth of 61% and sales growth of 29% over the past three years

BY WENDY ZELLNER

THE WINNERS BY THREE MEASURES

SALES GROWTH*

FIRST HORIZON PHARMACEUTICAL	95.8%
NAUTILUS GROUP	85.2
SINGING MACHINE	83.2
UTSTARCOM	82.8
KING PHARMACEUTICALS	75.1

*AVERAGE ANNUAL SALES GROWTH FOR PAST THREE YEARS

EARNINGS GROWTH*

IMMUNEX	431.0%
UTSTARCOM	324.3
P.F. CHANG'S CHINA BISTRO	323.5
FIRST HORIZON PHARMACEUTICAL	317.2
CHICAGO PIZZA & BREWERY	239.6

*AVERAGE ANNUAL EARNINGS GROWTH FOR PAST THREE YEARS

RETURN ON CAPITAL*

CORPORATE EXECUTIVE BOARD	45.9%
NAUTILUS GROUP	42.4
ITT EDUCATIONAL SERVICES	40.3
WATSON WYATT & CO. HOLDINGS	39.1
SINGING MACHINE	38.4

*AVERAGE FOR PAST THREE YEARS

Data: Standard & Poor's COMPUSTAT

readings over three years, to make sure they're more than just a flash in the pan. Candidates must have a stock price greater than \$5 and a market cap of more than \$25 million. We knock out companies with recent declines in financial results or whose stock price has underperformed the S&P Industrials over the past year and the year to date. Those with the best track records move to the top of the heap.

That screening has produced our typical collection of diverse dynamos—from toy shops to trucking companies, computer wholesalers to concrete manufacturers. Thirty-two companies are making a repeat performance from last year's list. That includes No.2 Nautilus Group Inc., a direct marketer of exercise equipment—formerly named Direct Focus—that has parlayed the acquisition of various exercise and nutritional brands into a hefty 42% average return on capital over three years. Chairman and Chief Executive Brian R. Cook says this seller of such infomercial mainstays as the Bowflex exercise bench and Nautilus Sleep Systems got an unexpected bounce from the “nesting effect” of peo-

ple spending more time at home after September 11.

Of course, small companies aren't immune to broader business challenges. Technology and telecom companies are sparse in our rankings this year. A wave of bankruptcies and downsizings has swamped both sectors. And the tech universe could provide slim pickings for small-cap investors for some time. The number of tech initial public offerings fell off a cliff in the past two years—from more than 252 in 1999 to just 22 in 2001—as the market regrouped after having focused on Internet and telecom-related outfits at the expense of more “basic” players in semiconductors and other segments.

Still, some tech standouts are beating the odds with a strong niche or diversified customer base or both. No.17 QLogic Corp. makes chips, switches, and other products that help companies more efficiently manage their data storage. Growth in so-called storage networking has begun to slow, but it has not hit a wall like sales of personal computers. Even in a tech recession, QLogic's products are being snapped up by such customers as Dell Computer Corp. and Sony Corp. for use in their machines. As a result, the company beefed up profits by an average 39% a year for the last three years, while sales grew at a 46% clip. No.47 UTStarcom Inc., the sole communications company in the pack, has flourished by serving emerging Asian markets with its wireless phone networks.

Tech services fared far better than hardware and software in this slump. And it helps if you've got a creditworthy customer like the U.S. government. Just ask PEC Solutions Inc., which specializes in integrating the Web into the business of government. Federal contracting dollars compose 95% of its revenues, including deals with the Justice Dept., Pentagon, and Treasury. In the wake of September 11, PEC is building an online system to track the entry and exit of immigrants for the Immigration & Naturalization Service. Such cutting-edge contracts have boosted PEC to No.8 from No.30 on last year's list, with 42% average annual profit growth over the past three years.

Most of our Hot Growth hotshots reached the top by swimming with the tide, not against it. That's why there's a plethora of consumer-oriented, service, and health-care outfits. They've proven more resistant to recession than other sectors. And oftentimes, demographics are working in their favor, as well, as they focus on growing populations such

as older Americans. No.4 Chico's Inc., for instance, continues to succeed with its loose-fitting stylish clothes worn by women over 35. No.16 U.S. Physical Therapy Inc. treats lots of aging boomers and their children at its outpatient physical and occupational therapy clinics.

Or take the slew of education companies on the list, including No.6 Corinthian Colleges, No.14 Apollo Group, No.15 DeVry, and No.38 Career Education. Widespread layoffs are prompting workers to upgrade their skills or retrain. More than 15 million students in the U.S. are in post-secondary education programs now, but fewer than half those are the typical 18- to 22-year-olds who head to college right out of high school, notes Karl Brewer, a co-man-

TWO YEARS OF HARD TIME

Stony soil is no good for growing the 100 companies that made *BusinessWeek's* Hot Growth 2000, the past two years have been as rocky as they come. Many of the companies were hit hard by the turn and couldn't rely on large reserves of cash to pull them through. All some of the companies from the list benefited from a resilient consumer base were caught in a squeeze as corporations froze capital spending.

That pain was reflected in the stock returns. Take Ditech Communications Corp. During the 2000 telecom boom, the maker of echo-reduction equipment came in at No.55 on the Hot Growth list, with \$77.5 million in sales. When the telecom bubble burst, its shares went way down, with the stock price around \$3 a share, down 96% from when it traded at over \$85.

To measure whether the Hot Growth companies have kept their punch, *BusinessWeek* waits two years to check back—enough time for them to weather any short-term anomalies. The verdict on the Class of 2000? Ditech is far from unique: 59 of the companies have

William Blair Small Cap Growth Fund. These companies "have figured out how to deliver post-secondary education to specific niches of the market and are underserved by the traditional educational institutions," he says. Apollo, for instance, offers fully accredited bachelor's and master's programs at its University of Phoenix campuses or on-line—a venue that is especially convenient for working adults. The company's annual sales growth averaged 26% over the past three years, while profits increased an average 31%.

But where the opportunities are the most, the field is often jammed with competition. There, it takes innovation and execution to rise above the crowd. Consider No. 25, P.F. Chang's China Restaurant Inc. With a Chinese restaurant

seemingly around every corner, how do you reinvent this business? For CEO and Chairman Richard L. Federico the answer is to blend traditional Chinese cuisine with sophisticated settings and superior service. And restaurant managers must take an ownership stake in new restaurants, which lowers management turnover, a perennial industry headache. "There really isn't a branded player in the Asian segment," notes Federico, whose chain dished up average earnings growth of 324% over the past three years on 59% annual sales growth, to \$343.9 million in the past 12 months. Now he's cautiously developing a lower-cost, quick-service concept called Pei Wei Asian Diner.

Certainly, some of today's highfliers will crash to earth in the years ahead as

they misread consumers, expand too quickly, or stumble in other ways (below). Some will disappear through acquisition—No. 51 Immunex Corp., for instance, is being swallowed by drug maker Amgen Inc.

But others will move up to the big leagues. Oracle Corp. and Cisco Systems Inc. were once among our small-cap stars. "There's probably a company or two on your list that will be very important to the economy 15 or 20 years from now," says Thomas W. Laming, chief equity strategist at Buffalo Mutual Funds. Spotting those gems now is almost as much fun as snaring a bargain at Tuesday Morning.

With Stephanie Anderson Forest in Dallas and Catherine Yang in Washington

THE CLASS OF 2000 COOLS OFF

a tough couple of years for some of these former Hot Growth companies

THE 2000 WINNERS...

TWO-YEAR TOTAL RETURN*

OPHER & BANKS	448.4%
IS GROUP	360.7
S FAS	352.6
PORES	145.4
SANCE LEARNING	137.4
	135.8
LABORATORIES	131.5
	125.0
PIC	120.1
RS USA	105.5

*Based on the stock price as of Apr. 30; companies not trading on that date

...AND THE LOSERS

TWO-YEAR TOTAL RETURN*

DSET	-99.5%
DITECH COMMUNICATIONS	-96.4
OPTIO SOFTWARE	-95.7
CARRIER ACCESS	-93.1
TIDEL TECHNOLOGIES	-92.6
VITESSE SEMICONDUCTOR	-91.2
MEADE INSTRUMENTS	-86.5
DIAMONDCUSTER INTL.	-84.1
FINISAR	-82.9
CITRIX SYSTEMS	-81.0

Data: Standard & Poor's COMPUSTAT

market losers. Thirty-one have fallen, and 10 have merged or been acquired. The picture is even worse, as the biggest companies on the list—such as Network Appliance and Vitesse Semiconductor Corp.—lost. The average two-year return for the group was -0.7%, but those bottom-dwellers had the list limping. The market-weighted return of the group was below the small-cap Russell 2000's modest gain of 3.9% in the period.

Of the bottom-dwellers are in technology and telecom. They account for 22 of the 25 losers from the class of 2000. Wonder: Buckets of money poured into building telecom lines

and other gear that now sits unused. At the bottom of our list is telecom software maker DSET Corp., which has lost 99.5% of its value in the past two years.

Still, several companies from the 2000 Hot Growth list managed to thrive. Some retailers, often among the most volatile groups, showed surprising growth. The common thread? Strong brand management. "If the

shopper is brand-loyal, she'll still go to the stores she likes," says John Kyees, chief financial officer of women's apparel chain bebe stores inc. It returned 145%, fourth-best among 2000 Hot Growth companies.

Christopher & Banks, a Minneapolis-based specialty clothing chain, tops all comers with a 448% return. C&B kept a sharp eye on inventory management while aggressively expanding, says Chief Financial Officer Andrew K. Moller. The clothier, which changed its name in July, 2000 from Braun's Fashions to sound more upscale, isn't done: It plans to add 90 stores in the next year.

The two years haven't treated other members of Hot Growth 2000 as kindly. Battered, they're counting on renewed corporate spending to put them back on track. Ditech has been expanding its customer base overseas and continues to develop new telecom hardware in preparation for an economic upturn. "We expect it by mid-2003," says company spokesman Kim Shanley. Hope for growth springs eternal, even in the rockiest of times.

*By Brian Hindo
in New York*



Singing Machine Co. Coconut Creek, Fla.

STEELE AIMS HIS
PRODUCT AT
TEENS AND
NOW CHILDREN



RANKING #1 | SALES \$59 million | EARNINGS \$9.1 million

WHAT'S HOT Five years ago, this company was bankrupt. Now that Singing Machine focuses on home-karaoke machines that are sold at mass-market retailers, it is humming along

STRIKING THE RIGHT CHORD

Thanks to partnerships and clever marketing moves, Singing Machine is making happy music

Five years ago, Edward Steele, chief executive of Singing Machine Co., was singing the blues. Despite Steele's best efforts, his company had filed for Chapter 11 bankruptcy protection, sales were falling, the company had been delisted from Nasdaq, and investors were worried that it would soon go belly-up.

Today, Steele, 72, is hitting all the right notes. Thanks to a marketing tie-

in with MTV—and a strategic shift to selling karaoke machines for home use—the company he bought with a group of investors in 1989 is thriving. In 1997, sales were only \$6 million. But the company emerged from Chapter 11 the next year. For the next three years, sales grew an average of 83% annually, to \$59 million last year. Earnings did even better, climbing an average 136% a year, to \$9.1 million. That performance sent Singing Machine to No. 1 on *BusinessWeek's* Hot Growth list.

Singing Machine's fortunes turned around after Steele made the decision in the late 1990s to sell home-karaoke machines instead of \$2,000 nightclub models. The high-tech home versions, which

retail for less than \$300, play compact disks that let users connect machine to TV sets and read lyrics on the screen. Last year, the best-seller was a \$199.99 MTV-branded model with a 7-inch built-in TV screen.

Steele sells his machines through retailers as Best Buy, Toys 'R' Us, Target. "The key was going directly to the mass markets," says Steele, who became fascinated with karaoke machines—which play the accompaniment but omit the singing voice—after seeing their popularity in Asian bars and nightclubs in the 1980s. Steele, a native New Yorker who skipped college to work for a toymaker 50 years ago, oversees the look and design of all his machines.

That pact with MTV has allowed Singing Machine to target teenagers and adults in their early 20s. More than 3,000 songs Singing Machine sells separately on CDs are from artists such as Britney Spears and Ricky Martin, who appeal to a young demographic. The strategy of placing the MTV logo on the machines is so successful that Singing Machine entered into an agreement with MTV sibling Nickelodeon aimed at an even younger group. In July, Singing Machine will launch a \$49.99 Nickelodeon-branded karaoke system for the under-10 set.

Some investors worry about whether Singing Machine's growth is sustainable. "Is this a fad or the beginning of something that's here to stay?" wonders J. Montgomery, portfolio manager of Bridgeway Funds, which holds 100 shares. Karaoke machines may yet end up next to piles of discarded pet rocks and mood rings. But for now, Steele, who owns 14.8% of the company, estimates the total home-karaoke market in the U.S. at \$150 million a year.

Steele believes Singing Machine will double its sales next year with the help of some new concepts. In July, the company brings out a \$119.99 portable karaoke with a tiny built-in video camera that records a singer's performance. Later, Steele envisions karaokes with chips that record and change a singer's voice from male to female, machines with DVD players, and others that can process MP3 files. "We see no reason why this can't be a major, major company in a few years," he says.

Steele, who plans to retire in March, is grooming Singing Machine President John F. Klecha to succeed him. Meanwhile, he sees only one way the company's progress will be threatened. "[When] people stop singing," Steele quips, "our business is gone."

By Aixa M. Pascual
in Coconut Creek, Fla.



of separation between
inspiration and creation.



When software lets you quickly turn new ideas into new products, that's business with .NET.

Making sure the right information gets to the right place at the right time means employees will have the data needed to quickly implement their inspirations. .NET connected software from Microsoft breaks down the barriers in business and lets information flow freely between employees, systems, and devices. It's the key to improving collaboration and productivity so you can bring new products to market faster. That's one degree of separation. That's business with .NET. Find out how .NET connected software can help employees realize their ideas. Go to microsoft.com/enterprise **Software for the Agile Business.**

Pfizer wanted to get products out the door faster. Using .NET connected software, they built an application that seamlessly links employees together, so pharmaceutical products move through the manufacturing process more quickly. The result? Improved productivity and faster and more responsive customer service.

Microsoft

Microsoft Corporation. All rights reserved. Microsoft is a registered trademark of Microsoft Corporation in the United States and/or other countries. The names of companies and products mentioned herein may be the trademarks of their respective owners.

GERT GETS THE LAST LAUGH

Ex-housewife Gert Boyle turned her late husband's indebted outerwear maker into a powerhouse

When Gertrude Boyle's husband died of a heart attack in 1970, he left behind three children, a growing but heavily indebted sportswear company, and a wife who knew nothing about managing the family business. Not surprisingly, banks and creditors were not keen on having a housewife run troubled Columbia Sportswear Co. They forced Mrs. Boyle to find a buyer. But when she sat down and learned that she would make only \$1,400 off the sale, she told the potential buyer, "for that kind of money, I'll run the company into the ground myself."

That was 32 years ago, and in the intervening decades, plainspoken Gertrude Boyle, 78, known as "Gert," and her son, CEO Timothy Boyle, 52, have thrived. The two, who are featured in the company's humorous "Mother Boyle" ads, have made Columbia into one of the world's largest outdoor apparel manufacturers. This year, it ranks No. 15 on our Hot Growth list.

Columbia benefited from the rapid expansion of the outdoor-sportswear market. But the Boyles also managed the opportunity well, producing quality clothing at lower prices than competitors Patagonia and North Face. "Our garments are well manufactured and affordable," Mrs. Boyle says. And highly profitable. While Columbia's revenues grew an average 23% annually over the past three years, earnings have climbed even faster, rising 43% a year. Its shares, which went public at a split-adjusted \$18 in 1998, now fetch about \$37.

To get those results, Boyle, now chairman, has had to make a lot of tough choices. With son Tim, then only 21, as her business partner, Boyle's first step was to clean house. She fired nearly all of her roughly 55 employees. Gert and Tim focused on listening to customers and innovating. That came naturally to Gert, who as a young wife in 1955 had sewn the company's first fishing vest at her kitchen table after her husband's buddies asked for something with more

pockets to store flies, pliers, and line. Says Tim: "Our research doesn't rely on a design ivory tower or lab. We talk to our customers about what they want to buy, and we make it."

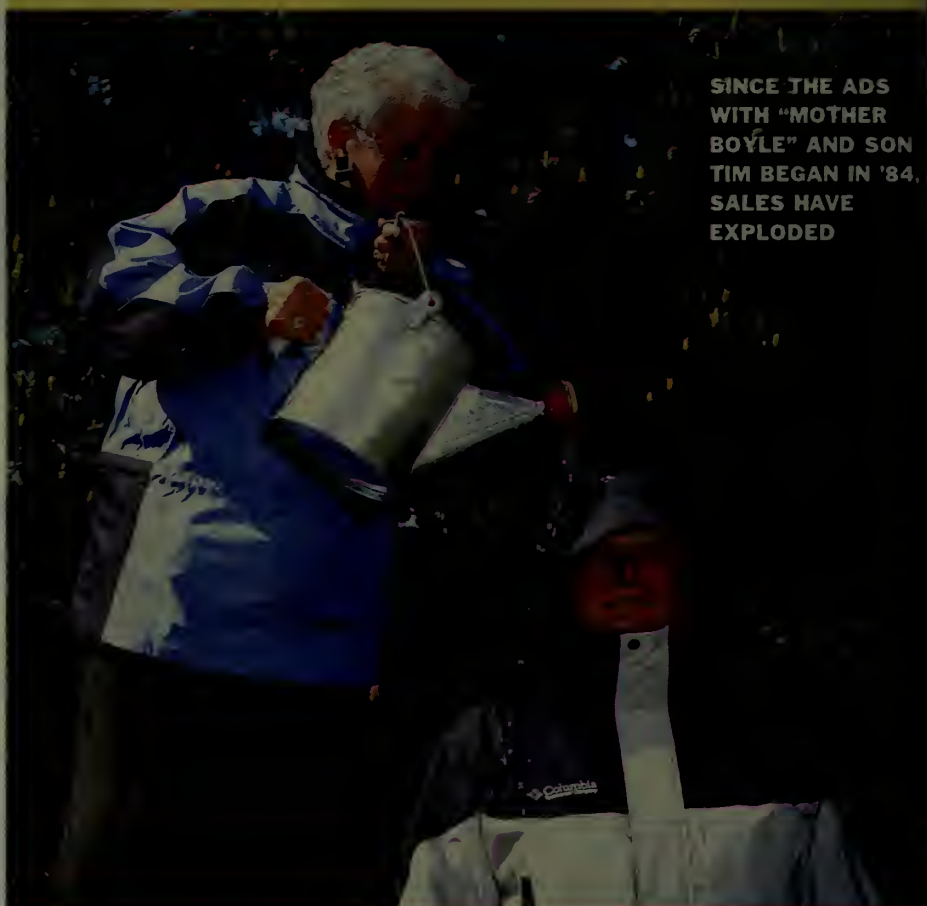
The result was innovative designs such as their Quad jackets for hunters, which feature a weatherproof outershell and an insulating inner jacket that can be worn together or separately, and their similarly styled Bugaboo ski jacket, which has sold in the millions. Creative marketing includes the "Mother Boyle" ad campaign, which paints the chairman as a tyrant who makes sure the company's jackets and pants can stand up to her tough standards as well as Oregon's legendary bad weather.

Gert's favorite line from the ads: "age and treachery will overcome you and skill." Since the campaign began in 1984, sales have grown from \$3 million to \$784.8 million in the most recent months.

But the Boyle team is facing a challenge. A warm winter and the recession have conspired to slow Columbia's red-hot growth rate to a 2% to 4% this year. "The chances are much upside this fall and winter are pretty slim," says Ragen MacKenzie, analyst Laurie Breidenbach. To compensate, Columbia is trying to lessen reliance on weather-related clothing, now nearly 52% of its business. Tim is aggressively pushing into footwear, sportswear, and overseas markets including Europe. And Mother Boyle? Despite her age, the chairman says she has no intention of retiring. When an investor asked her son what will happen after Gert dies, Tim displayed his mother's spirit: "We'll just have her stuff," he said.

By Stanley Holmes in Seattle

Columbia Sportswear Co. Portland, Or.



SINCE THE ADS WITH "MOTHER BOYLE" AND SON TIM BEGAN IN '84, SALES HAVE EXPLODED

RANKING #15 | SALES \$784.8 million | EARNINGS \$89.2 million

WHAT'S HOT Taking its irreverent marketing campaign and high-quality, reasonably priced foul-weather jackets, pants and footwear to Europe will help to keep growth stoked

PROVIDING THE KILLER BENEFIT

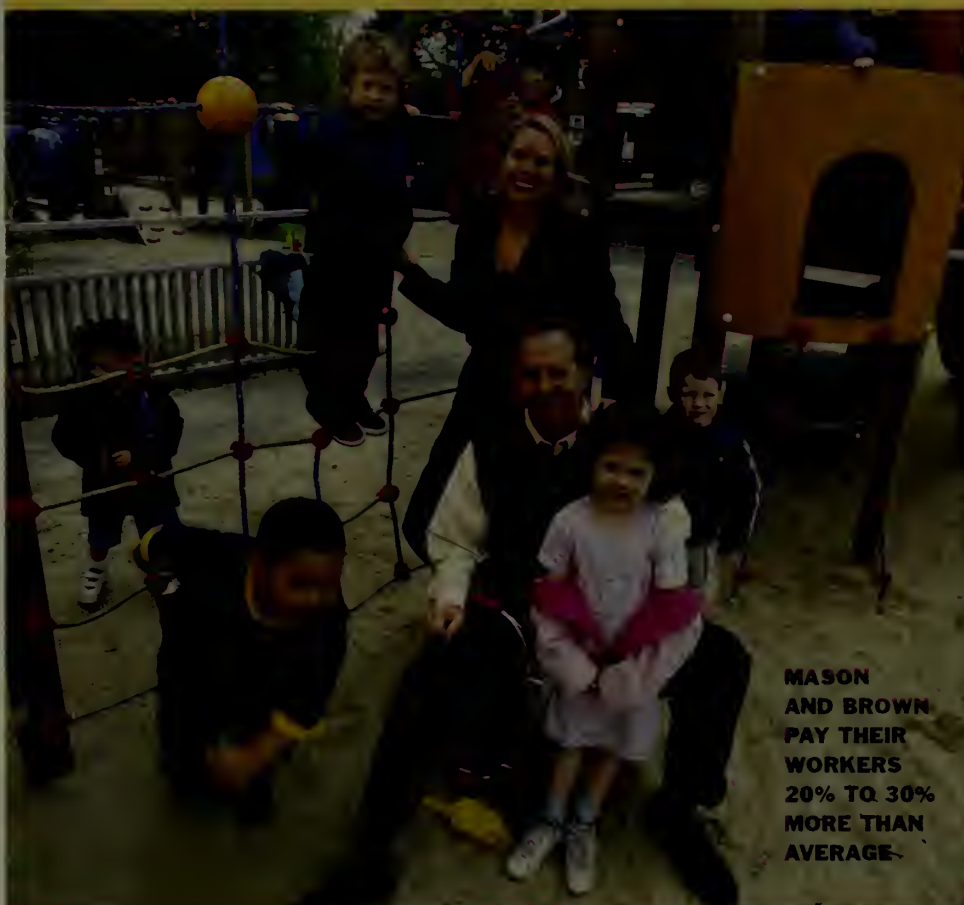
Companies say on-site
day care pays off in
higher productivity and
reduced turnover

When Roger Brown and Linda Mason met at the Yale University School of Management in 1979, they seemed destined for careers in Corporate America. Like other newly minted MBAs aiming for the corporate track, they accepted consulting jobs. Before plunging into the corporate world, the adventurous couple headed for Cambodia in 1980, intending to spend the summer working in refugee camps. "A few days after we arrived, the Vietnamese invaded, turning our camps into a war zone," says Mason, who still remembers the crowds of malnourished children. They stayed for two years.

They did wind up taking those consulting jobs, but soon they were drawn to the Sudan and spent two more years doing relief work there. The couple, who later got married, decided to make a career of working with children. "We decided to let's forget about building our careers and decide what we really want to do," says Mason. At the suggestion of a colleague, they tapped into the new business of providing child care at work sites, launching what's now Bright Horizons Family Solutions Inc. in 1986.

The timing couldn't have been better. As employers were just beginning to realize that providing good-quality child care at the work site was a killer benefit. It improves morale and productivity by reducing turnover. Thanks to its entry, Bright Horizons soon became the provider of choice for major employers. Following a 1998 merger, it now runs more than 400 child-care centers for about 300 employers—making it more than four times larger than its closest competitor. In the past three years, sales have zoomed an average 18%, to \$358.6 million, while profits grew by an average of 164% a year, to \$12.5 million. And even though the recession has forced companies to cut many

Bright Horizons Family Solutions Watertown, Mass.



**MASON
AND BROWN
PAY THEIR
WORKERS
20% TO 30%
MORE THAN
AVERAGE**

RANKING #35 | SALES \$358.6 million | EARNINGS \$12.5 million

WHAT'S HOT With high-quality staff and facilities, Bright Horizons is the provider of choice for companies looking to offer on-site child care. Clients include Fidelity, Microsoft, and Toyota

other expenses, growth is holding up nicely—partly because on-site care is so valued by employees. It was good enough to vault Bright Horizons to No. 35 on this year's Hot Growth list.

Quality care is the secret to its success. The day-care field is notorious for its low margins. In response, many operators have tried to boost profits by holding the line on wages—a surefire recipe for reducing the quality of day-care workers. But as the parents of three young children—all of whom attended Bright Horizons centers—Roger and Linda were determined to turn this formula on its head. For starters, they get the employers they contract with to pay for the child-care facility. "That gives us about a 20% cost advantage," says Roger. Bright Horizons then uses the savings to pay its staff 20% to 30% more than the market norm, or about \$10 to \$11 an hour, plus benefits such as health insurance and 401(k)s. That's unusual among child-care workers. All this has made Bright Horizons the employer of choice.

Some 98% of Bright Horizons' parents say they're satisfied with the care their kids are receiving. Employers are equally enthusiastic. "They have bent over backward for us," says Peggy Malumphy, benefits manager for the Dana-Farber Cancer Institute in Boston, which helps support a Bright Horizons' center just a seven-minute walk from its offices. "We are getting a terrific return on our investment." Other companies, apparently, agree. Bright Horizons has compiled a blue-chip roster of clients, from Microsoft and Cisco Systems to Fidelity Investments and Toyota Motor.

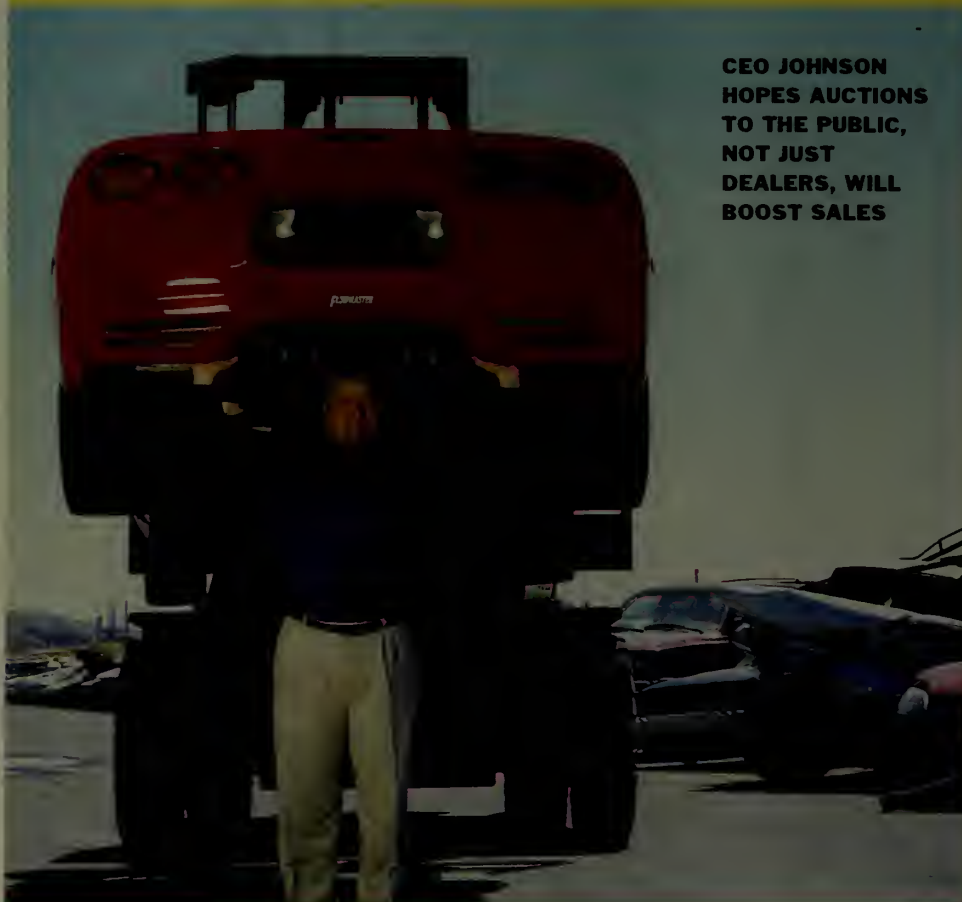
Roger and Linda, who now serve as executive chairman and chairman, have brought in others to run day-to-day affairs, but they believe there's still plenty of room to grow. Only about 10% of big companies provide on-site child care. And the company has just begun to venture into Western Europe. That gives Bright Horizons a bright future.

By William C. Symonds in Boston

TURNING RUST INTO GOLD

Copart Benicia, Ca.

**CEO JOHNSON
HOPES AUCTIONS
TO THE PUBLIC,
NOT JUST
DEALERS, WILL
BOOST SALES**



RANKING #31 | SALES \$283.8 million | EARNINGS \$49.7 million

WHAT'S HOT Copart raced to the top of the vehicle-salvage business through acquisitions. Now it's counting on the Internet to keep the pedal to the metal

Junkyard top dog Copart has mastered the online auction—and commands a third of the salvage market

When Barry Rosenstein visited the headquarters of auto-salvage outfit Copart Inc. in 1993, what greeted him didn't scream: "Great investment!" Recalls Rosenstein: "I drove up there, and there was a junkyard, with a bunch of wrecked cars, a barbed-wire fence, and a metal building." Rosenstein, then a partner with San Francisco investment firm Genesis Merchant Securities LLC, was looking

to invest in companies that could lead the consolidation of their industries, and salvage firms were a possibility—no matter how bad they looked.

But after talking with founder and Chief Executive Willis J. Johnson, now 55, Rosenstein knew he'd found a winner. Johnson shared his vision of buying up dozens of auto junkyards and forging them into a nationwide chain. Soon after, Genesis and a group of investors anted up \$7 million to get Johnson rolling. Says Rosenstein: "This guy had it."

Good call. Today, thanks to years of acquisitions and the savvy use of technology, Benicia (Calif.)-based Copart has raced to the top of its industry and to No. 31 on our Hot Growth list. It com-

mands a leading 30% share of the market for wrecked vehicles—those that insurers deem total losses. The insurer settles up with the owner, and Copart auctions off the wrecks to dismantlers, rebuilders, and used-car dealers. The insurer gets the proceeds, less Copart's share—either a fixed fee of \$50 to \$100 per car or a percentage of the sale.

Copart had only three sites in 1993. Today it has 91 in 40 states. Sales in the past 12 months were \$283.8 million, up 31% on average in each of the past three years. Profits have climbed an average annual 40%, to \$49.7 million in the past 12 months. Growth slowed at the beginning of this year because weather nationwide meant fewer accidents. Still, sales in the 12 months ended Apr. 30 rose a brisk 45%, to \$90.2 million, and earnings jumped 45%, to \$16.6 million. Says Gary Prestopino, an analyst with Barris Research Associates Inc.: "Copart is the dominant player in the industry."

A big reason for Copart's ascension has been its early adoption of the Internet. As far back as 1992, Copart gave insurers online access to its database so that they could track sales more effectively. Since adding online bidding in mid-1995, the company's business has rocketed. In the latest quarter, direct online sales hit \$44.5 million, and an additional \$10 million worth of auctions involved at least one Internet bid. So even for auctions bought at a physical auction, the Internet has been a real tool for growing the business, says Johnson.

Yet Copart is facing slower growth. There are fewer independent salvage operators to acquire. Moreover, the rising prices that salvage companies have been able to charge insurers in recent years won't be sustainable, says Hausfeld, president of the American Salvage Pool Assn. Insurance companies, battered by September 11, are resisting any price hikes. Says Hausfeld: "You're going to see a slowdown." Copart sees annual profits growing more sedate 18% to 22% and is moving into new auction formats, such as time bidding and sales open to the public, not just dealers.

You might expect that kind of sourcefulness from a kid who grew up on an Oklahoma dairy farm and learned business basics from watching live auctions. In his off hours now, Johnson again finds himself in the fields. But this time, those fields are at the vineyard he owns near the Napa Valley, where he indulges his hobby—restoring classic cars.

*By Robert D. ...
in San Mateo, Ca.*



Sacagawea: interpreter, scout, lead manager.

When the Pacific was a distant dream and the lands between it and the Mississippi were an uncharted wilderness, Sacagawea led Lewis and Clark through the Louisiana Purchase to the west of Oregon. She was the one who read the stars. Spoke the language. Understood the people. Knew the territory.

Our territory is the capital markets, and no one is better at guiding clients through it. • We were the top-performing bookrunning lead manager of 2001.[†] • Guided clients on deals valued in excess of \$20 billion. • And maintained our #1 ranking in after-deal IPO support. When you set out to conquer new territory, take the right guide to lead the way.

Guides for the journey.

US bancorp
Piper Jaffray®

FAIRFAX • MENLO PARK • SAN FRANCISCO • LOS ANGELES • SEATTLE • CHICAGO • NEW YORK • LONDON • TEL AVIV*

* Return to office prices for all IPOs and follow-on offerings completed in 2001. Rankings include all bookrunning managers that completed at least 10 transactions in 2001.

† Based on IPOs underwritten from 1/1/00 to 12/31/01. Securities products and services are offered through US Bancorp Piper Jaffray Inc., member SIPC and NYSE, Inc.,

US Bancorp, Strength Through Diversity

www.piperjaffray.com

0102 00 1764

AIR METHODS GETS A LIFT

Under CEO Belsey, the company is becoming a leading provider of airborne medical services

Last Thanksgiving, an Air Methods Corp. medical-rescue helicopter arrived at a horrific accident scene in Riley, Ore. A college student making a wrong turn in her car was broadsided by a Jeep and now was trapped in the wreckage with life-threatening injuries. A good samaritan who pulled over to help had been run over by a semi-truck—both his legs were crushed. Battling against time, a nurse and res-

piratory therapist from St. Charles Medical Center in Bend, Ore., strapped the injured into a Bell 222UT twin-engine copter, where they could administer blood and dress wounds while speeding toward the hospital 105 miles away. Thanks to the rapid response, the two eventually made full recoveries.

Air rescue has become a vital element of emergency hospital care, and Air Methods is emerging as the provider of choice. Founded in 1982 with a single helicopter, Air Methods now operates 56 helicopters and 13 airplanes serving hundreds of hospitals in 18 states. Since 1994, when CEO George W. Belsey, a company director and former hospital administrator, took over, the

company has branched out beyond people transportation. It also ties copters that are fully staffed with nurses and paramedics in to the community emergency-response system. They serve hospital networks in large metropolitan areas.

The company's products unit markets kits that transform aircraft into flying hospitals. Its biggest customer is the U.S. Army. Now Air Methods, No. 57 on the Hot Growth list, is flying. Revenues have jumped an average 25% annually over the past three years to \$98.4 million, and profits have grown by an average 169%, to \$7.7 million.

Air Methods owes much of its growth to a smart expansion strategy. Belsey, 62, figured he could save money by buying competitors, tying them together into regional services, and selling entire communities of hospitals. He started with air transport staffed with paramedics and nurses. In 1997, he began with the acquisition of Mercy Air, a medical transport company serving Southern California. Then Air Methods bought small helicopter operators in Las Vegas and St. Louis and opened a handful of air bases in the region. That allowed the company to serve hospitals throughout those areas without buying more helicopters. "They're gaining economies of leverage on their fixed costs, that benefits the bottom line," says Richardson, vice-president at M&C Capital, which owns 400,000 Air Methods shares. Air Methods says it will close another acquisition this year.

More growth could come from the products division, especially in light of September 11. After landing the contract with the U.S. Army in 1996, Air Methods developed a system that transforms a cargo helicopter into an airborne ambulance in two minutes. Lights, oxygen, medical supplies, and stretchers are built in. "It's like a small intensive care unit," says Belsey. The Army contract could generate \$200 million over the next 20 years, analysts estimate.

Still, Air Methods faces plenty of risks. Unscheduled aircraft repairs bump costs unexpectedly, and bad weather can ground pilots for days at a time. Such unpredictability has kept investors at arm's length—Air Methods stock has hovered around \$4 a share for much of the past two years. Wall Street has finally taken notice of the company's growth, pushing shares up to \$10.50 this year and providing the company with currency to pursue more acquisitions. For now, at least, Air Methods has found an updraft.

By Arlene Weintraub
in Los Angeles

Air Methods Corp. Englewood, Colo.

BELSEY IS BUYING SMALLER RIVALS AND TYING THEM IN TO REGIONAL SERVICES



RANKING #57 | SALES \$98.4 million | EARNINGS \$7.7 million

WHAT'S HOT Its pilots and aircraft are in high demand by hospitals that need airborne ambulances, and the Army chose Air Methods to help turn Black Hawk copters into flying hospitals

S&P
- 500
+ 600

SmallCap

Look beyond the S&P 500 and you will find stock market indices that cover the entire American economy. From the **S&P SmallCap 600** to the S&P MidCap 400, virtually every index gauge of the U.S. economy that investors could want or need has been created. And the best part is, they all come with a name you can rely on.

STANDARD
&POOR'S

Setting the Standard

2002

HOT GROWTH COMPANIES

To win a position in this table, a company must excel in three ways. The selection process begins by ranking companies according to their three-year results in sales growth, earnings growth, and return on invested capital. The ranks in the table are calculated from these numbers. A company's composite rank is the sum of 0.5 times its rank in return on total capital plus 0.25 times each of its growth ranks.

Standard & Poor's COMPUS-TAT, which has computerized financial data on approximately

10,000 publicly traded corporations, provided the pool of companies from which winners were selected. To qualify, a company must have annual sales of more than \$50 million and less than \$1.5 billion, a current market value greater than \$25 million, a current stock price greater than \$5, and be actively traded. Banks, insurers, real estate firms, and utilities are excluded. So are companies with declines in current financial results or in stock price, as well as companies where other developments raise questions about future performance.

SALES and **EARNINGS** are the latest figures available through the most recent 12 months. Earnings include net income from continuing operations before gains or losses from extraordinary items.

INCREASES in **SALES** and **PROFITS** are calculated using the least-squares method. If results for the earliest year are negative or not available, the average is for two years.

RETURN ON CAPITAL is earnings expressed as a percent of total debt and equity. For ranking purposes, the maximum al-

lowable annual return on invested capital is 100%. If companies have made substantial accounting restatements, low returns may be averaged years instead of three years.

Time periods vary according to the month of a company's yearend. Profitability and are calculated based on the recently available data.

STOCK PRICE data are as of May 9, 2002. A ● indicates that a company also appeared in last year's rankings (June 11, 2001).

COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA		
	SALES \$ MIL.	EARNINGS \$ MIL.	INCREASE (%) SALES	PROFITS	RETURN ON CAPITAL	52-WEEK HIGH - LOW	RECENT	P-E RATIO
1 SINGING MACHINE (SMD) Coconut Creek, Fla. 954 596-1000 For the Pavarotti wannabes: They market and distribute karaoke equipment	59.0	9.1	83.2	135.9	38.4	19 - 3	15	13
2 NAUTILUS GROUP (NLS) Vancouver, Wash. 360 694-7722 ● Their infomercials and ads promote fitness products	424.9	75.8	85.2	77.5	42.4	46 - 17	39	19
3 CORPORATE EXECUTIVE BOARD (EXBD) Washington D.C. 202 777-5000 ● Research and consulting services for corporate executives	135.9	23.5	34.3	78.6	45.9	44 - 23	37	58
4 CHICO'S FAS (CHS) Fort Myers, Fla. 941 277-6200 ● Retail stores specializing in women's fashions and accessories	378.1	42.2	53.9	68.1	28.8	41 - 14	40	40
5 CHRISTOPHER & BANKS (CHBS) Plymouth, Minn. 763 551-5000 ● Fashionable women's clothing and accessories	275.9	32.9	36.8	78.6	30.3	41 - 15	40	32
6 CORINTHIAN COLLEGES (COCO) Santa Ana, Calif. 714 427-3000 ● Specialists in career oriented education	310.0	34.5	31.5	172.0	18.8	59 - 24	57	36
7 COGNIZANT TECHNOLOGY SOLUTIONS (CTSH) Teaneck, N.J. 201 801-0233 Software development for information intensive industries	180.9	23.7	45.7	54.6	19.8	49 - 18	49	42
8 PEC SOLUTIONS (PECS) Fairfax, Va. 703 679-4900 ● Web systems for e-government	125.5	14.7	37.1	41.7	20.7	44 - 13	26	50
9 JACK HENRY & ASSOCIATES (JKHY) Monett, Mo. 417 235-6652 ● Providers of integrated computer systems for banks	372.4	56.7	42.5	32.4	22.4	33 - 19	22	36
10 SKECHERS USA (SKX) Manhattan Beach, Calif. 310 318-3100 ● Shoes for the whole family—casual, active, or rugged styles	977.8	50.4	39.1	29.3	24.7	40 - 10	22	17
11 RENAISSANCE LEARNING (RLRN) Wisconsin Rapids, Wis. 715 424-3636 ● Providers of comprehensive school improvement programs for grades K-12	136.9	33.3	33.6	34.0	22.7	54 - 24	33	35
12 AMERICAN EAGLE OUTFITTERS (AEOS) Warrendale, Pa. 724 776-4857 ● Collegiate-style casual apparel and accessories for young men and women	1371.9	105.5	32.5	22.6	26.1	43 - 17	25	17
13 WATSON WYATT & CO. HOLDINGS (WW) Washington D.C. 202 715-7000 A consulting firm specializing in helping businesses attract and retain employees	708.1	47.9	11.1	91.4	39.1	28 - 14	25	18
14 APOLLO GROUP (APOL) Phoenix 480 966-5394 ● Offers for-profit education programs tailored to working adults	880.2	127.7	25.6	31.3	24.9	39 - 20	36	52
15 COLUMBIA SPORTSWEAR (COLM) Portland, Ore. 503 286-3676 Skiing, hiking, hunting, and fishing togs for the great outdoors	784.8	89.2	23.0	42.9	20.0	51 - 20	37	16
16 U.S. PHYSICAL THERAPY (USPH) Houston 713 297-7000 Back on your feet: They operate outpatient physical therapy clinics	84.1	7.6	23.5	63.4	17.3	21 - 11	17	29
17 QLOGIC (QLGC) Aliso Viejo, Calif. 949 389-6000 Designers of integrated storage area networking products	344.2	70.7	46.2	38.8	15.7	66 - 17	47	63
18 U.S. LABORATORIES (USLB) San Diego 858 715-5800 Testing for construction, geotechnical, and infrastructure projects	57.6	3.0	68.2	76.3	12.7	17 - 6	14	22



With Avaya, you're already this close to IP Telephony.

In fact, as the leader in voice solutions, Avaya can give you Enterprise Class IP Solutions now. By merging voice and data into one network, you cut costs while enabling employees to stay in touch with clients and colleagues, utilizing multimedia communications seamlessly — anywhere, anytime. And our MultiVantage™ Software utilizes an open architecture, which allows integration with your existing systems and business processes. So you can extend the benefits of IP Telephony at your own pace, however it makes sense for your company. See how close you are to IP Telephony at avaya.com/yes

AVAYA

COMMUNICATION WITHOUT BOUNDARIES

HOT GROWTH COMPANIES

COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA		
	SALES \$ MIL	EARNINGS \$ MIL	INCREASE (%) SALES	PROFITS	RETURN ON CAPITAL	STOCK PRICE		P-E RATIO
19 KEITH COS. (TKCI) Costa Mesa, Calif. 714 540-0800 ● Civil engineers that survey, map, and provide environmental services	74.2	5.9	33.6	59.0	15.7	24 - 7	15	19
20 POLYMEDICA (PLMD) Woburn, Mass. 781 933-2020 Direct-to-consumer products and services for treatment of diabetes	263.6	30.1	36.4	60.0	14.7	49 - 10	38	17
21 SCANSOURCE (SCSC) Greenville, S.C. 864 288-2432 ● Distributors of automatic identification, point-of-sale, and telephony products	781.2	18.3	52.6	54.2	13.3	70 - 40	67	23
22 TOO (TOO) New Albany, Ohio 614 775-3500 Sleepware, swimwear, and private-label apparel for girls 7 to 19	602.7	39.6	17.3	32.3	25.0	32 - 18	31	25
23 AAON (AAON) Tulsa 918 583-2266 ● Makes rooftop air conditioners and heating systems	153.8	14.2	14.5	38.6	26.1	33 - 12	29	19
24 ITT EDUCATIONAL SERVICES (ESI) Indianapolis 317 594-9499 Offers technology-oriented postsecondary degree programs	424.3	35.3	11.9	31.9	40.3	53 - 26	51	34
25 P.F. CHANG'S CHINA BISTRO (PFCB) Scottsdale, Ariz. 602 957-8986 Chinese restaurants featuring menus from five regions of China	343.9	16.8	59.2	323.5	9.9	39 - 16	38	57
26 SCP POOL (POOL) Covington, La. 985 892-5521 ● Splish-splash: Pool supplies and related products	871.9	36.3	22.6	36.4	16.5	34 - 18	31	23
27 FIRST HORIZON PHARMACEUTICAL (FHRX) Alpharetta, Ga. 770 442-9707 Brand-name prescription drugs for the treatment of chronic conditions	84.0	12.5	95.8	317.2	9.5	33 - 13	24	54
28 ABERCROMBIE & FITCH (ANF) New Albany, Ohio 614 283-6500 ● High-quality casual apparel for the youth market	1364.9	168.7	18.7	16.9	37.9	48 - 16	32	19
29 TUESDAY MORNING (TUES) Addison, Tex. 972 387-3562 Closeout home accessories and gifts from name-brand manufacturers	665.8	33.7	17.7	27.5	20.1	29 - 9	28	34
30 MAXIMUS (MMS) Reston, Va. 703 251-8500 ● Management services for governmental agencies	509.3	42.2	27.5	37.2	14.5	49 - 28	32	18
31 COPART (CPRT) Benicia, Calif. 707 748-5000 Provides services to process and salvage vehicles through auctions	283.8	49.7	30.9	40.3	13.4	26 - 14	17	29
32 OEVR (DV) Oakbrook Terrace, Ill. 630 571-7700 ● Career-oriented higher education as well as CPA, CMA, and CFA review programs	632.8	64.7	17.6	23.4	21.1	40 - 23	27	29
33 IOEC PHARMACEUTICALS (IDPH) San Diego 858 431-8500 ● Targeted therapies for the treatment of cancer and autoimmune diseases	295.9	110.5	44.8	64.0	10.5	75 - 43	49	77
34 TOTAL SYSTEM SERVICES (TSS) Columbus, Ga. 706 649-2310 ● Credit-card processor for banks and private-label plastic issuers	663.1	107.8	17.6	23.5	19.1	36 - 19	22	40
35 BRIGHT HORIZONS FAMILY SOLUTIONS (BFAM) Watertown, Mass. 617 673-8000 Workplace child care in the U.S., Canada, and Britain	358.6	12.5	18.4	164.4	12.5	32 - 22	29	30
36 ADVENT SOFTWARE (ADVS) San Francisco 415 543-7696 ● Software products to help the investment management process	182.7	32.7	33.7	87.6	10.3	69 - 29	47	51
37 CHEESECAKE FACTORY (CAKE) Calabasas Hills, Calif. 818 871-3000 For the calorie-unconscious: cheesecake, pizza, pasta, and more	568.8	41.5	26.6	41.6	12.6	44 - 20	41	49
38 CAREER EDUCATION (CECO) Hoffman Estates, Ill. 847 781-3600 Post-secondary educational services, from business to design to culinary arts	579.4	44.0	53.8	104.1	9.1	46 - 22	44	46
39 THQ (THQI) Calabasas Hills, Calif. 818 871-5000 Publishers of computer games for PCs and game consoles	399.3	37.9	20.2	20.2	17.5	43 - 24	34	34
40 NATIONAL HOME HEALTH CARE (NHHHC) Scarsdale, N.Y. 914 722-9000 Home care for the sick, the disabled, and the elderly	79.2	5.2	30.9	65.4	10.6	19 - 6	16	17
41 MEOQUIST (MEDQ) Marlton, N.J. 856 810-8000 Transcription services for hospitals and physicians	424.2	43.7	13.9	120.0	13.3	34 - 20	28	25
42 KING PHARMACEUTICALS (KG) Bristol, Tenn. 423 989-8000 Preparers of brand-name and licensed drugs	949.0	259.5	75.1	111.4	8.7	46 - 27	29	26
43 SICOR (SCRI) Irvine, Calif. 949 455-4700 Pharmaceutical company specializing in injectable products	395.1	88.9	27.6	160.5	9.8	27 - 13	18	24
44 99 CENTS ONLY STORES (NDN) City of Commerce, Calif. 323 980-8145 ● More bang for the buck! General merchandise at 99¢ or less	616.4	50.9	21.8	21.1	15.8	33 - 19	31	42
45 ICU MEDICAL (ICUI) San Clemente, Calif. 949 366-2183 Makers of disposable medical products, particularly for intravenous therapy	75.0	16.4	20.1	28.3	14.1	43 - 21	38	34
46 BIOMET (BMET) Warsaw, Ind. 574 267-6639 Makes medical devices, including reconstructive products and dental implants	1154.0	238.3	14.8	25.6	16.8	34 - 24	28	32
47 UTSTARCOM (UTSI) Alameda, Calif. 510 864-8800 Wireless telecom access systems and optical transmission products	691.3	65.1	82.8	324.3	7.5	36 - 13	21	36
48 OPTION CARE (OPTN) Bannockburn, Ill. 847 615-1690 Provides infusion therapies in outpatient facilities and at home	243.9	11.3	23.1	46.7	12.0	18 - 9	15	25

ODAY

TOMORROW

TOYOTA

Reduce actual
crash injuries

Reduce actual
crash injuries



He can't talk, he can't walk, he can't drive a car. Yet he could be the most important "person" in the world of automotive safety testing today. He's THUMS, the world's first virtual human for crash testing.

Developed by Toyota engineers, THUMS can provide a microscopic look at the injuries real people are likely to sustain in a car accident. By analyzing data from THUMS' 80,000 cyberparts, engineers can now zero in on skin, bones, ligaments and tendons — something they were never able to do before.

Although currently only an experiment, technologies like THUMS may one day be used to supplement Toyota's existing safety programs, to make our cars even safer for real human beings. Safer cars — thanks to one very smart dummy.

www.toyota.com/tomorrow

HOT GROWTH COMPANIES

COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA		
	SALES \$ MIL.	EARNINGS \$ MIL.	INCREASE (%) SALES	PROFITS	RETURN ON CAPITAL	STOCK PRICE 52-WEEK HIGH - LOW	RECENT	P-E RATIO
49 MTR GAMING GROUP (MNTG) Chester, W. Va. 304 387-5712 ● A day at the races: Gambling is what they offer in West Virginia and Nevada	229.2	16.4	39.2	22.1	12.2	18 - 7	17	28
50 PATTERSON DENTAL (PDCO) St. Paul, Minn. 651 686-1600 ● Distributor of dentistry and dental products	1320.8	88.8	14.2	20.9	18.9	47 - 30	45	35
51 IMMUNEX (IMNX) Seattle 206 587-0430 Biopharmaceuticals for treating the immune system	1040.9	165.1	59.4	431.0	7.4	31 - 14	25	87
52 ENGINEERED SUPPORT SYSTEMS (EASI) St. Louis 314 553-4000 Designers of electronics and support equipment for the U.S. military	393.5	20.3	64.2	50.3	8.8	58 - 26	51	26
53 STRAYER EDUCATION (STRA) Newington, Va. 703 339-2500 Undergraduate and graduate programs for working adults	98.9	22.1	13.7	8.7	24.7	60 - 37	58	38
54 MENTOR (MNTR) Santa Barbara, Calif. 805 879-6000 Makers of prosthetic devices, including surgical implants	313.2	38.9	14.9	22.5	16.3	41 - 23	39	24
55 ADVANCED MARKETING SERVICES (MKT) San Diego 858 457-2500 ● Provides superstores with books and audio and video products	720.4	22.8	12.9	22.0	18.2	26 - 13	25	21
56 CEC ENTERTAINMENT (CEC) Irving, Tex. 972 258-8507 ● Fun, games, and pizza for the whole family	571.5	65.8	14.1	24.0	16.0	56 - 31	46	20
57 AIR METHODS (AIRM) Englewood, Colo. 303 792-7400 Emergency medical air transportation to hospitals in 18 states	98.4	7.7	25.0	169.3	9.0	11 - 3	10	12
58 RENAL CARE GROUP (RCI) Nashville 615 345-5500 ● Dialysis services for patients with chronic kidney failure	787.0	80.4	26.2	27.0	12.2	36 - 25	34	21
59 EDUCATION MANAGEMENT (EDMC) Pittsburgh 412 562-0900 Offers degree and nondegree programs in design, media, culinary arts, fashion	461.7	40.0	18.6	25.8	13.4	46 - 23	42	36
60 WEST (WSTC) Omaha 402 963-1200 ● They provide outsourced tele-services	787.7	76.5	18.4	20.2	15.7	33 - 17	27	24
61 RIGHT MANAGEMENT CONSULTANTS (RMCI) Philadelphia 215 988-1588 Career consultants for those in transition from their jobs	351.5	25.2	20.9	37.4	11.8	29 - 12	27	17
62 ORTHODONTIC CENTERS OF AMERICA (OCA) Metairie, La. 504 834-4392 ● Dental practice management in the U.S., Mexico, and Japan	384.8	65.8	26.2	19.7	13.0	33 - 22	26	20
63 FTI CONSULTING (FCN) Annapolis, Md. 410 224-8770 Consultants for problems from financial restructuring to litigation	175.6	19.2	43.3	92.6	7.7	37 - 9	33	35
64 ICT GROUP (ICTG) Newtown, Pa. 267 685-5000 A global supplier of customer relationship management solutions	253.8	9.1	26.0	48.0	9.7	27 - 8	25	35
65 LINCARE HOLDINGS (LNCR) Clearwater, Fla. 727 530-7700 Providers of oxygen and other in-home respiratory therapy	849.3	148.6	18.8	16.5	14.7	34 - 22	30	23
66 ACCREDITO HEALTH (ACDO) Memphis 901 385-3688 Contract pharmacy and treatment services for chronic diseases	588.0	27.0	36.9	129.3	7.5	65 - 27	59	59
67 HIBBETT SPORTING GOODS (HIBB) Birmingham, Ala. 205 942-4292 For the fans: Sports equipment, shoes, and clothes at more than 330 stores	241.1	11.6	19.1	19.9	13.9	29 - 13	27	23
68 DENTSPLY INTERNATIONAL (XRAY) York, Pa. 717 845-7511 Designers and makers of a broad range of dental equipment and supplies	1234.6	120.3	11.9	47.2	12.8	41 - 26	38	25
69 CHICAGO PIZZA & BREWERY (CHGO) Huntington Beach, Calif. 714 848-3747 They're famous for deep-dish pizza	66.7	3.1	30.2	239.6	7.7	8 - 2	7	25
70 GAIAM (GAIA) Broomfield, Colo. 303 222-3600 Natural and healthy goods and services for the ecologically minded	105.3	4.4	46.0	66.3	7.7	24 - 9	15	47
71 A.C. MOORE ARTS & CRAFTS (ACMR) Blackwood, N.J. 856 228-6700 An arts-and-crafts superstore	351.8	10.4	20.8	32.2	10.4	49 - 9	44	34
72 TRC (TRR) Windsor, Conn. 860 298-9692 Green consulting: environmental engineering advice and services	167.7	14.2	34.5	102.4	7.1	38 - 19	25	23
73 BARR LABORATORIES (BRL) Blauvelt, N.Y. 845 353-8418 ● Manufactures generic versions of high-profile pharmaceuticals	1120.5	186.0	10.4	18.7	16.5	91 - 54	65	16
74 AMERICAN WOODMARK (AMWD) Winchester, Va. 540 665-9100 Makers of 150 lines of kitchen cabinets	488.9	30.0	13.6	20.8	15.1	73 - 26	65	18
75 YOUNG INNOVATIONS (YDNT) Earth City, Mo. 314 344-0010 For your pearly whites: Dental instruments and supplies	66.2	9.5	20.3	16.4	12.8	25 - 12	23	24
76 CURTISS-WRIGHT (CW) Lyndhurst, N.J. 201 896-8400 Highly engineered equipment and machinery for industry	361.0	63.0	11.3	26.7	13.6	80 - 40	79	13
77 SIMPSON MFG. (SSD) Dublin, Calif. 925 560-9000 Engineers connectors for wood, masonry, and concrete	423.4	41.3	14.0	8.2	15.8	69 - 46	65	19
78 INTERMAGNETICS GENERAL (IMGC) Latham, N.Y. 518 782-1122 Developers of superconducting materials and electromagnetic components	156.0	19.8	15.6	75.0	9.5	37 - 18	23	20



©2002, Fannie Mae. All rights reserved. The house logo is a registered mark of Fannie Mae.

**There are many things to celebrate in America.
With the help of Fannie Mae,
our housing finance system is one of them.**

When it comes to housing finance, we've created something special here in America. Because only in America can a home buyer easily secure a 30-year, fixed-rate mortgage with a low down payment.

Without Fannie Mae, this wouldn't have been possible over the years. Our main focus has always been to make mortgages more affordable.

In many other countries home buyers don't have access to long-term, fixed-rate mortgages.

And in the United States, families can become home buyers with as little as three percent down. In Germany, a typical down payment is 30 to 40 percent. In Japan? It's 50 to 60 percent.

At Fannie Mae, we believe the American Dream should be an attainable dream. So we're working to make housing affordable for more and more Americans. And that's something worth celebrating.



FannieMae

www.fanniemae.com

HOT GROWTH COMPANIES

COMPANY (STOCK SYMBOL)	CURRENT RESULTS		THREE-YEAR AVERAGES			INVESTMENT DATA		
	SALES \$ MIL.	EARNINGS \$ MIL.	INCREASE (%) SALES	PROFITS	RETURN ON CAPITAL	52-WEEK HIGH - LOW	RECENT	P-E RATIO
79 KNIGHT TRANSPORTATION (KNGT) Phoenix 602 269-2000 It keeps on truckin', carrying consumer goods, packaged food, beverages	256.5	20.3	27.7	12.7	10.5	24 - 10	20	36
80 MEDICAL ACTION INDUSTRIES (MDCI) Hauppauge, N.Y. 631 231-4600 For the OR: Suppliers of disposable surgical instruments and related medical goods	80.4	5.8	11.3	43.7	11.7	24 - 5	12	21
81 DIAGNOSTIC PRODUCTS (DP) Los Angeles 310 645-8200 Diagnostic kits and related instrumentation for medical professionals	290.4	41.3	13.1	25.8	12.3	53 - 29	48	34
82 RARE HOSPITALITY INTERNATIONAL (RARE) Atlanta 770 399-9595 Operates and franchises LongHorn Steakhouses and other restaurants	543.5	27.3	18.9	45.7	8.7	30 - 14	28	23
83 ARGOSY GAMING (AGY) Alton, Ill. 618 474-7500 Owns and operates riverboat casinos	857.9	76.2	15.8	104.9	8.1	42 - 22	33	13
84 SONIC (SONC) Oklahoma City 405 280-7654 The largest chain of drive-in restaurants in the U.S.	365.3	41.6	14.1	23.4	12.1	31 - 17	29	29
85 O'REILLY AUTOMOTIVE (ORLY) Springfield, Mo. 417 862-6708 Everything automotive: Tools, parts, and professional service equipment	1148.5	70.7	20.7	27.5	9.2	38 - 22	32	24
86 SYNCDR INTERNATIONAL (SCOR) Woodland Hills, Calif. 818 737-4000 Dispenses radiopharmaceuticals to hospitals and clinics	808.8	38.6	20.0	40.9	8.7	40 - 21	31	22
87 VARIAN (VARI) Palo Alto, Calif. 650 213-8000 Manufactures scientific instruments and vacuum pumps	751.9	46.1	11.0	44.4	9.8	40 - 22	34	26
88 CACI INTERNATIONAL (CACI) Arlington, Va. 703 841-7800 Provides info-tech services and products to U.S. government and commercial clients	644.8	28.7	19.1	21.3	9.7	44 - 16	32	27
89 CENTRAL EUROPEAN DISTRIBUTION (CEDC) Sarasota, Fla. 941 330-1558 Importers and distributors of alcoholic beverages in Poland	188.0	2.9	48.5	10.2	8.3	17 - 3	16	24
90 INTERNATIONAL GAME TECHNOLOGY (IGT) Reno, Nev. 775 448-7777 Chance makers: It manufactures computerized casino games	1448.0	237.9	11.5	20.8	12.1	72 - 36	62	21
91 CHURCH & DWIGHT (CHD) Princeton, N.J. 609 683-5900 The Arm & Hammer people, leading producer of sodium bicarbonate (baking soda)	1081.1	49.8	15.7	10.7	11.1	37 - 24	35	29
92 ROPER INDUSTRIES (ROP) Bogart, Ga. 706 369-7170 It designs specialty analytical instrumentation, fluid handling devices, and industrial controls	598.4	58.6	15.5	11.5	10.7	53 - 31	44	24
93 REGIS (RGIS) Edina, Minn. 952 947-7777 Wash and set, blow-dry or perm, it operates franchised hair salons	1415.7	67.4	17.9	24.1	8.9	31 - 18	30	19
94 FLORIDA ROCK INDUSTRIES (FRK) Jacksonville, Fla. 904 355-1781 Produce and sell sand and gravel, crushed stone, ready-mixed concrete	731.4	74.4	12.2	21.9	10.4	44 - 26	40	16
95 CLARCOR (CLC) Rockford, Ill. 815 962-8867 Make filtration products for engines and for industrial use	669.0	40.1	17.6	9.7	9.9	34 - 22	32	20
96 FRED'S (FRED) Memphis 901 365-8880 Discount variety stores selling over 12,000 brand-name products in the South	910.8	19.6	15.1	31.3	7.8	41 - 13	38	47
97 REHABICARE (REHB) New Brighton, Minn. 651 631-0590 Their electrotherapy devices are designed to activate muscles and relieve pain	65.6	4.0	24.1	7.7	8.2	7 - 2	6	17
98 CALIFORNIA PIZZA KITCHEN (CPKI) Los Angeles 310 342-5000 They serve pasta, salads, and guess what	262.5	13.6	14.6	11.8	9.4	28 - 14	23	32
99 SHOE CARNIVAL (SCVL) Evansville, Ind. 812 867-6471 Value-priced footwear for Mom, Dad, and the kids	476.6	12.6	19.7	4.2	8.5	21 - 8	19	19
100 GENLYTE GROUP (GLYT) Louisville 502 893-4600 Makers of a wide spectrum of lighting fixtures for home and office	973.1	38.4	12.9	11.6	8.3	45 - 24	42	15

ALPHABETICAL INDEX OF COMPANIES

The number that follows each company name indicates its ranking in the table

A.C. Moore Arts & Crafts 71
AAON 23
Abercrombie & Fitch 28
Accredo Health 66
Advanced Marketing Svcs. 55
Advent Software 36
Air Methods 57
American Eagle Outfitters 12
American Woodmark 74
Apollo Group 14
Argosy Gaming 83
Barr Laboratories 73
Biomet 46
Bright Horizons 35
CACI International 88
California Pizza Kitchen 98
Career Education 38
CEC Entertainment 56
Central European Distrib. 89
Cheesecake Factory 37

Chicago Pizza & Brewery 69
Chico's FAS 4
Christopher & Banks 5
Church & Dwight 91
CLARCOR 95
Cognizant Tech. Solutions 7
Columbia Sportswear 15
Copart 31
Corinthian Colleges 6
Corporate Executive Board 3
Curtiss-Wright 76
DENTSPLY International 68
DeVry 32
Diagnostic Products 81
Education Management 59
Engineered Support Systems 52
First Horizon Pharmaceutical 27
Florida Rock Industries 94
Fred's 96
FTI Consulting 63
Gaia 70

Genlyte Group 100
Henry (Jack) & Associates 9
Hibbett Sporting Goods 67
ICT Group 64
ICU Medical 45
IDEC Pharmaceuticals 33
Immunex 51
Intermagics General 78
Intl. Game Technology 90
ITT Educational Services 24
Keith Cos. 19
King Pharmaceuticals 42
Knight Transportation 79
Lincare Holdings 65
Maximus 30
Medical Action Industries 80
MedQuist 41
Mentor 54
MTR Gaming Group 49
National Home Health Care 40

Nautilus Group 2
99 Cents Only Stores 44
Option Care 48
O'Reilly Automotive 85
Orthodontic Centers 62
P.F. Chang's China Bistro 25
Patterson Dental 50
PEC Solutions 8
PolyMedica 20
QLogic 17
RARE Hospitality Intl. 82
Regis 93
Rehabicare 97
Renal Care Group 58
Renaissance Learning 11
Right Mgmt. Consultants 61
Roper Industries 92
ScanSource 21

SCP Pool 26
Shoe Carnival 99
SICOR 43
Simpson Mfg. 77
Singing Machine 1
Skechers USA 10
Sonic 84
Strayer Education 53
Synco International 86
THQ 39
Too 22
Total System Services 3
TRC 72
Tuesday Morning 29
U.S. Laboratories 18
U.S. Physical Therapy 1
UTStarcom 47
Varian 87
Watson Wyatt & Co. 13
West 60
Young Innovations 75



It's not a 17th-century chateau.
It's a hotel.

Renaissance Pittsburgh Hotel

You'll be surprised by what a Renaissance hotel is and isn't. It isn't dull, predictable or typical. It is expressive design, award-winning restaurants and savvy, intuitive service. After one stay, your preconceptions of a hotel may never be the same. For reservations at any of the over 120 Renaissance locations, call your travel agent or 1-800-HOTELS-1 or visit renaissancehotels.com



RENAISSANCE® HOTELS

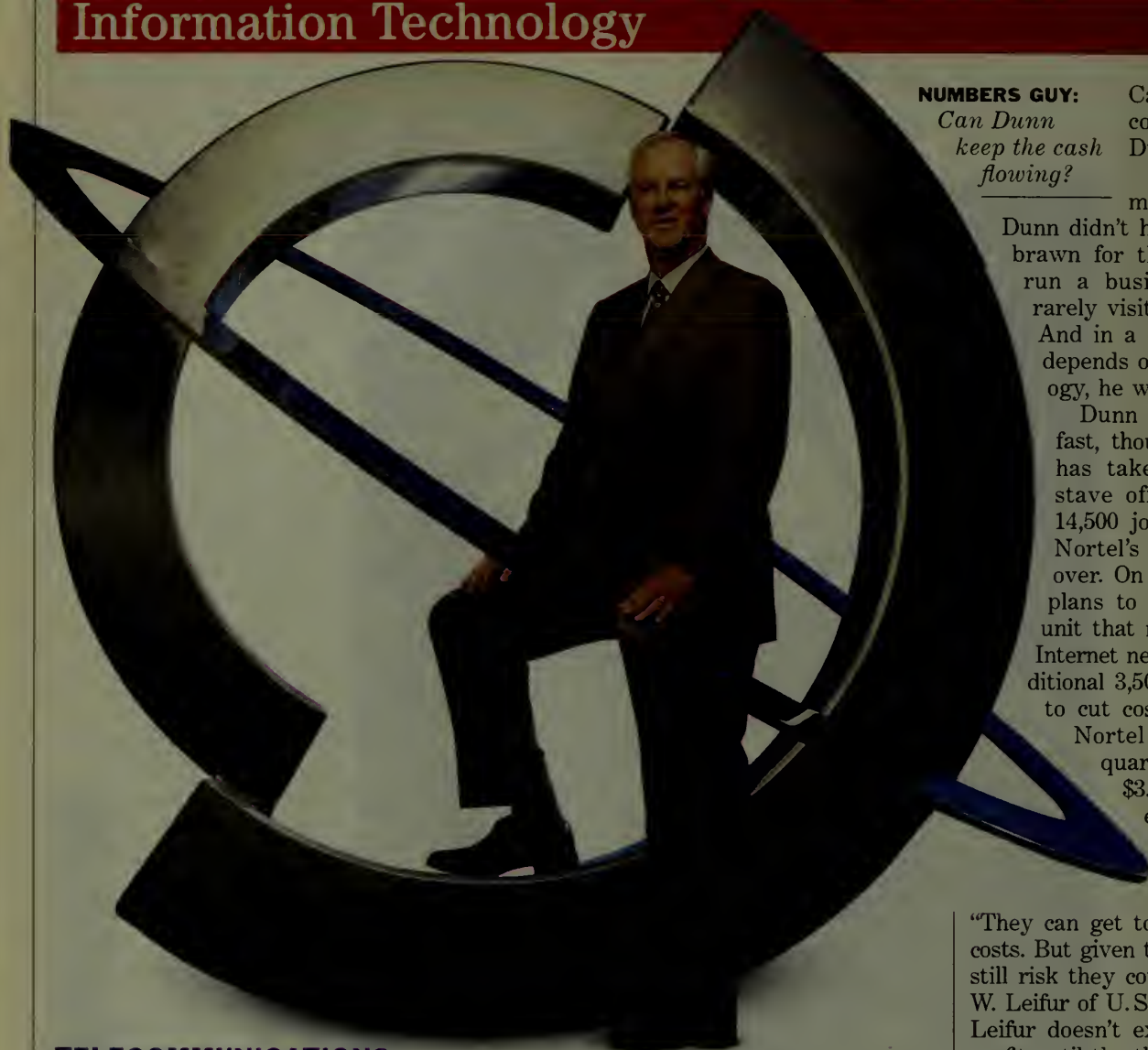
Now, a \$50 certificate toward your next stay.

Present your ticket from any of our airline partners listed below at check-in by June 30 and receive a \$50 certificate toward your next two-night stay at any Renaissance hotel.* Certificate expires 12/31/02.



American Airlines® **Delta** **UNITED**

* Not applicable for groups of 10 or more, one certificate issued per stay, must be used for future 2-night stay, use of certificate not combinable with other offers. Airline travel must take place within three days prior to arrival. American Airlines® is a registered trademark of American Airlines, Inc.



TELECOMMUNICATIONS

NORTEL: NEW BOSS, SAME PROBLEMS

CEO Frank Dunn needs to make some headway, fast

Once, eight years ago, when Nortel Networks Ltd. executive Frank A. Dunn's team was losing a recreational hockey game, his frustration boiled over. During a scramble for the puck, Dunn, then about 40, slammed an opponent into the boards. Dunn wrenched his rival into a headlock, nearly starting a brawl with the other team, according to Tom Manley, a former Nortel executive who played hockey with Dunn. "Frank is fiercely competitive," says Manley. "Whether he's at work or playing a game of pick-up hockey, he doesn't like to lose."

Now, as Nortel's CEO, it will take all

the ferocity that Dunn can muster to turn around the troubled Canadian telecom-equipment maker. Dunn, who had been a little known chief financial officer for two years, took over last November from predecessor John A. Roth, who retired amid a telecom-industry meltdown. More than a dozen telecom companies have gone bankrupt as capital spending was slashed 11% in 2001 and an additional 25% this year, says Lehman Brothers Inc. That has wreaked havoc on all the telecom-equipment makers. Nortel lost \$4.5 billion in 2001, excluding special charges, after net income of \$2.5 billion in 2000. Overnight, the future of

NUMBERS GUY:
Can Dunn keep the cash flowing?

Canada's most important company was laid on Dunn's shoulders. When the switche

made, it seemed Dunn didn't have enough lead brawn for the job. He had run a business before. He rarely visited Nortel's customers. And in a company whose fate depends on cutting-edge technology, he was no techie.

Dunn seems to be leaning fast, though. In six months he has taken the right steps to stave off a crisis. He has cut 14,500 jobs from the 60,500 on Nortel's payroll when he took over. On May 28, he announced plans to try to sell the unit that makes parts for optical Internet networks, shedding an additional 3,500 workers. His goal is to cut costs to the point where

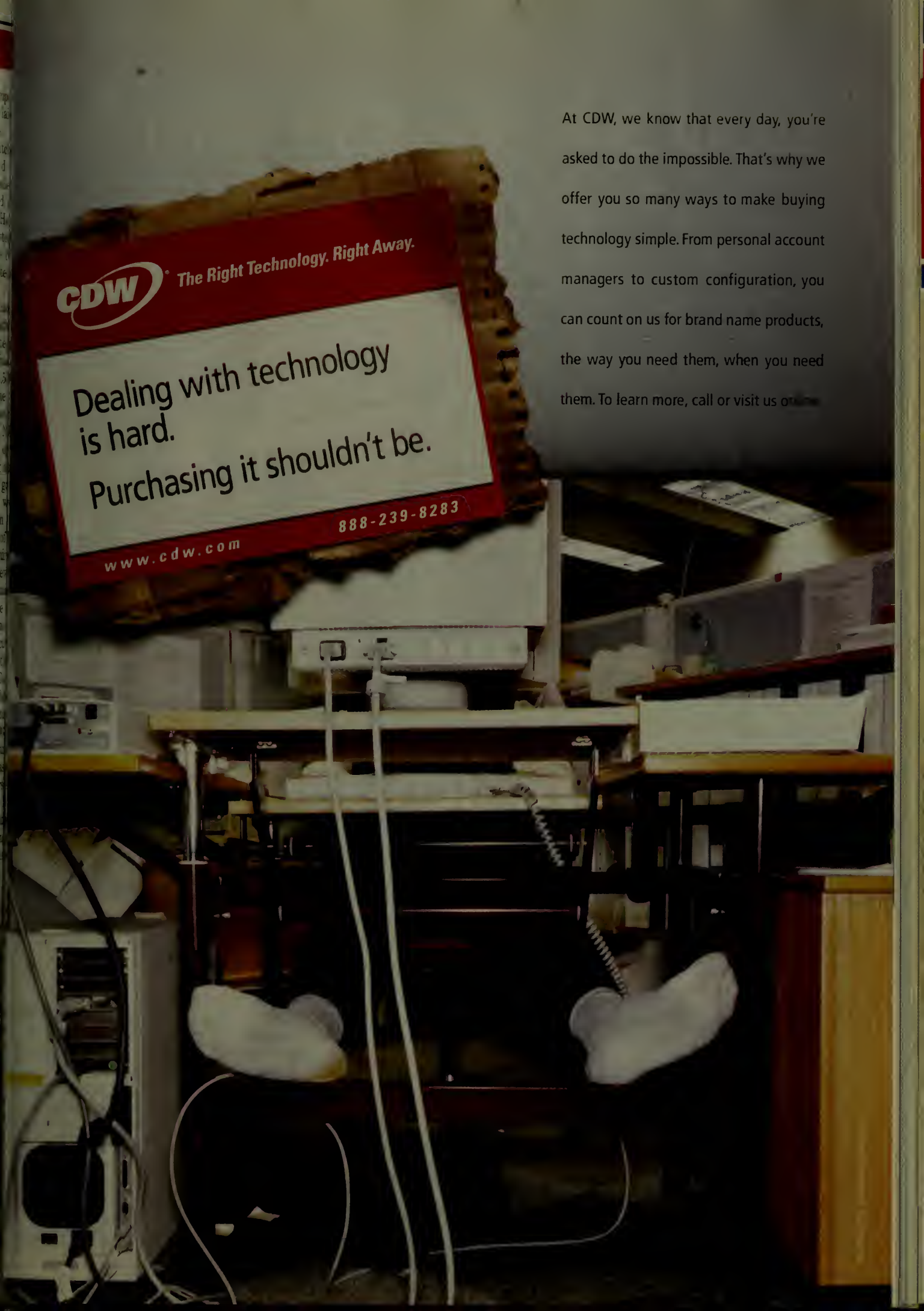
Nortel can break even on quarterly revenues of \$3.2 billion—something analysts expect to achieve by the fourth quarter. Analysts have no doubts, though,

"They can get to breakeven by cutting costs. But given the environment, they still risk they could miss," says C. W. Leifur of U.S. Bancorp Piper Jaffrey. Leifur doesn't expect Nortel to turn a profit until the third quarter of 2002.

Even while he slashes away, Dunn is spending on two key product areas: optical gear for corporate customers and next-generation wireless systems. Wireless are expected to rebound more quickly than other telecom gear. Spending on wireless data-networking gear, for instance, is expected to grow by 15% in the next two years, to \$36.9 billion, Deutsche Bank. Dunn set R&D spending at 20.4% of sales in the first quarter up from 16.6% a year earlier. "The financial health of Nortel is critical," Dunn says. "But if you don't move on multiple fronts, you will fall."

His critics agree with his cost-cutting strategy, but they question his ability to make Nortel an industry leader again. He has not spelled out a grand vision that demonstrates how his investments in R&D will vault the company beyond rivals who are targeting the same markets. "That is a difficult task for Frank because he didn't grow up on the operational side," says telecom analyst Michael Lucey of Toronto's TD Securities.

Dunn insists he's up to the tough around job. "One of the things that leadership's all about is not worrying v

A photograph of a cluttered office desk. A CDW sign is placed on the desk, leaning against a computer monitor. The sign has a red top section with the CDW logo and tagline, and a white bottom section with text. The desk is covered with various items, including a computer monitor, keyboard, mouse, and numerous tangled cables. The background is a plain wall.

CDW® The Right Technology. Right Away.

Dealing with technology
is hard.
Purchasing it shouldn't be.

www.cdw.com

888-239-8283

At CDW, we know that every day, you're asked to do the impossible. That's why we offer you so many ways to make buying technology simple. From personal account managers to custom configuration, you can count on us for brand name products, the way you need them, when you need them. To learn more, call or visit us online.

Information Technology

all the [critics] in the world are thinking," he says. And board members say what he may lack in experience and technical knowhow is outweighed by his financial acumen, competitive fire, and unwavering loyalty. "It's not a time for a visionary," says Lynton R. (Red) Wilson, chairman of Nortel's board. "We thought that Frank was the guy with the right kind of skills."

The immediate challenge is to keep the company from running short of money. Although Nortel has more than \$3 billion in cash, it is saddled with \$4.8 billion in debt and is likely to burn \$2.1 billion this year and \$1.6 billion in 2003, says UBS Warburg. Credit agencies Moody's Investors Service and Standard & Poor's in May cut Nortel's rating to junk status, making it harder to raise money. If Dunn doesn't get Nortel on a better financial footing by the end of this year, he may have to raise cash or find a buyer, says Bear, Stearns & Co. analyst Wojtek Uzdelewicz. "Nortel has liquidity for now, but they're burning a lot of cash," he says. "They have to do something."

Dunn denies he's seeking a merger. "I would be a stupid executive and businessman not to keep my eyes open," Dunn says. "But am I looking to sell Nortel? Absolutely not." Indeed, former Nortel executives say Dunn, a Canadian, was chosen in part because he would be averse to selling out to a non-Canadian bidder.

Still, there's no certainty that his medicine will heal the company. By some measures, it's in worse shape now than when he took over. Sales of \$2.9 billion in the first quarter, ended in March, were just half of the \$5.8 billion reported a year earlier. That's a far cry from the 2% increase rival Cisco Systems Inc. reported and worse even

than the 34% sales dive by troubled rival Lucent Technologies Inc.

Until now, numbers had always worked to Dunn's advantage. He grew up in Montreal watching his parents manage the books of their small business. He excelled at math and science at Chomedey High School outside Montreal. By the time he enrolled at Montreal's McGill University, his major would be a no-brainer: finance. He had other interests, too, especially football. His intense play as a receiver helped the McGill team make the 1973 national championships—which they lost. Dunn graduated in 1976, with a degree in finance, and immediately joined Nortel.

The scrappy young exec worked his way up the finance ranks in every divi-

\$385 million loss in the first quarter of 2001. "In the go-go days, they were credibly arrogant," says analyst S. Campbell of Nortel shareholder Northern Trust Corp. Dunn says he could have predicted the downturn.

The sliver-haired CEO has a long history of being super aggressive, known to ride people until they deliver results. When Nortel completed the billion-dollar financing deal, for cost Sprint PCS Group, in the late '90s, Dunn pushed his team mercilessly, recalls Kerr, former vice-president for finance. Dunn called Kerr many times a day, prodding him to fashion the \$1 billion loan—which helped land the sale.

These days, Dunn is putting the personal touch on Nortel's relations

STAUNCH Dunn insists that he's not seeking a merger. "I would be a stupid executive and businessman not to keep my eyes open," he says. "But am I looking to sell Nortel? Absolutely not."

sion of the company. His big break came in 1991 when he became finance chief for rising star Roth, in the wireless business. Dunn became CFO after Roth was appointed CEO. "I think of Frank as a focus guy," says Wes Scott, Nortel's former chief corporate officer and Dunn's onetime boss. "So he would come to meetings armed with facts."

Sometimes Dunn's facts have been wrong, however. He shares responsibility with Roth for overselling Nortel's prospects. Dunn, as CFO, repeatedly seconded Roth's assertions throughout late 2000 that the business was healthy—even a few weeks before it announced a

with customers. He spends 70% of his time on sales calls. He repeatedly traveled to the London headquarters of European wireless operator mm02. His attention helped Nortel land a \$560 million contract early this year.

It's not clear whether Dunn's former schmoozing will gain Nortel enough momentum. Despite the fact he paid three visits to SBC Corp., Lucent won a coveted contract in May to supply SBC key voice-over-Internet technology. Dunn may have to rack up quite a few frequent-flyer miles before he gets the tel back on the growth track again.

By Roger O. Crockett in Chicago

A LOT OF BALLS IN THE AIR

Here is CEO Dunn's turnaround plan for telecom-equipment maker Nortel. His prospects for success are rated with one to four stars, with four stars the best.

TRADITIONAL GEAR ★

Telecom companies slashed spending on Nortel's optical gear to \$1 billion in 2001 from \$8 billion in 2000. So Dunn is beefing up optical systems it sells to corporations with extra security and voice capability. But Cisco Systems has 90% of that market.

WIRELESS ★★

Nortel lagged behind its competitors in 2001 in the market for next-generation wireless networks. But in just four months this year, Dunn has nabbed an industry-leading \$1.2 billion in business, pushing the company ahead of Nokia. Ericsson and Nokia are still potent threats.

COSTS ★★★

Dunn has cut 14,500 jobs and plans 3,500 more. That will reduce the size of the workforce to 42,000, down from a high of 95,000 in 2000. He slashed first-quarter costs by 39% from year-ago levels. But further cuts could hobble sales and research and development.

BALANCE SHEET

Nortel has \$3 billion in cash on the books, partly by issuing debt. It's expected to burn \$2.1 billion this year and \$1.6 billion in 2003. Dunn is working on another debt offering but must also sell off noncore assets. Without more money, he may have to see a merger partner.

Data: Deutsche Bank, company reports



Free range works for this group...

but not for yours.

Free-range access to your network is a risk you may not know you are taking.

A barnyard fence just isn't enough. You need to guard the hen house, too. To protect your critical applications and sources, you need a Virtual Private Network with secure access control that goes beyond a point-to-point connection. AppGate™ PowerBox™ goes further by extending e-security into the internal, trusted network, all the way from the users to the applications. AppGate provides full access control, allowing an enterprise to customize access so you know who has access to which critical applications and web services. Protective boundaries are important...even for chickens.

For more information, visit our website at www.appgate.com or give us a call at 1-866-AppGate.

***app*GATE™**
We take e-security further

FINANCING

WE DON'T NEED NO STINKING IPOs!

Startups are spurning the markets in favor of independence

If this were 1999, David Krell would have bankers pounding down his door. His online stock-option trading site, International Securities Exchange Inc., turned its first profit in the fourth quarter and is on track for 20% pretax profit margins on more than \$50 million in sales this year. But when Krell wanted to raise \$25 million this month, he didn't think about an initial public offering: He hit up his private backers instead. "I'm not sure when—or if—we'll do an IPO," he says.

The reason the tech IPO market is quiet may be different than you think. After all, investors seem game. On May 23, online DVD-rental service Netflix Inc. jumped 12%, to \$16.75, in its first day of trading. But don't expect a lot of other Web companies to follow Netflix's lead. Instead, the market is being held back by an unexpected source: Companies that don't want to go public. Exactly how many profitable Web companies are sitting tight is hard to say. Checks with venture-capital firms and big-name startups turn up at least a dozen, in fields as diverse as online search and travel, auctions, and network storage devices. Even some e-tailers, such as luggage seller eBags Inc. and high-end crafts site Guild.com, say they've turned at least cash-flow positive but have no plans for an IPO.

Companies are deciding they don't want to risk what happened to the IPO class of 1999—going out too soon and getting whacked. They're waiting to have longer track records so that they, as well as Wall Street, can predict their businesses better. "If you miss a quarter by a penny, you're toast," says Greg



FREEDOM-LOVING: Hotwire's Karl Peterson

Strakosch, CEO of two-year-old online-newsletter startup TechTarget, which expects to turn profitable this quarter. Says Marc Benioff, CEO of privately held Salesforce.com: "A lot of public companies wish they weren't."

The fact is, privately held Net companies have learned to be frugal and have found ways to grow without IPO cash. Travel site Hotwire Inc., for example, spent about 12% as much on advertising as its rival, publicly held Priceline.com Inc.—even though it's now half

the size, says Hotwire CEO Karl Peterson. It stretches its ad dollar by buying Internet and radio spots instead of time.

And the drop-off in e-commerce new media startups since 1999 means that many companies now turning corner on profitability aren't hearing footsteps of other dot-coms behind them. That's why eBags CEO Jon Nordmark is in no rush to take his e-store public, why online purchasing exchange

Commerce is achieving profitability sooner by paring its international expansion. "Get big fast" is no longer rallying cry. "We're going to see that maybe it's the second mouse that gets the cheese," says Hotwire's Peterson.

Saying no to an IPO, at least, for now—won't slow pace of innovation. Indeed, some CEOs argue that going public would make them less creative. They don't want to be chained to budgets they shared with Wall Street. They don't want the scrutiny of a risk-averse market if they try to grab new opportunities. With analysts looking over their shoulder, Peterson says he would have thought twice about boosting April's marketing budget by 20% to promote his site during the airline fare war—a move that says sent revenue soaring 40%. TechTarget's Strakosch launched a print magazine

about computer storage in April, while Wall Street analysts would have known because of tech's ad slump. "It will be a huge franchise. But if we were public, we would have waited," he says.

Salesforce.com's Benioff would like to go public but says institutional investors tell him he'd be crazy to do so. So, it will be at least late this year before the trickle of deals like Net turns into a stream—let alone a flood.

By Timothy J. Mulligan
in New York

I'M NOT GOING PUBLIC

Used to be, Net companies went public before they even had sales. Not anymore. Promising dot-coms are waiting, even in a stronger IPO market. Here's a sample.

GOOGLE

Profitable search engine company with \$70 million in sales says push into corporate market needs management's attention more than an IPO does.

INTERNATIONAL SECURITIES EXCHANGE

E-market for stock options made a profit in December. But in May, it raised \$25 million privately. ISE says it can grow without a major capital infusion.

ICG COMMERCE

Online procurement site should turn cash-flow positive this year. Major shareholder Internet Capital Group is telling execs to build a longer track record.

TECHTARGET

Publisher of online tech newsletters says it will make \$10 million this year on \$30 million in sales, despite tech ad budget cuts. Execs want to take risks without worrying about the Street.



Learn about the Sprint Clear Wireless Workplace products and services that will give you a complete view of 24/7 Sprint PCS. All rights reserved. Sprint PCS is a registered trademark of Sprint Nextel. © 2007 Sprint Nextel. All rights reserved.

**UZIE HAS THE LATEST CELL PHONE.
UZIE HAS THE FASTEST LAPTOP.
UZIE ISN'T AS CONNECTED AS SHE THINKS
HE IS. SHE NEEDS THE SPRINT PCS
CLEAR WIRELESS WORKPLACE.®**

Wireless web access, advanced voice services,
management tools, smart devices and crystal-clear calls.

Custom-packaged for your company's needs. It's also supported
by the largest all-digital, all-PCS nationwide network
from the ground up, reaching more than 230 million people.

To make your people more productive. Get the
Clear Wireless Workplace story at sprintpcs.com



Sprint PCS®



Every part of the street should be a safe place to cross.

At DaimlerChrysler, we look at the road with pedestrians in mind. Which is why we're developing an intelligent recognition system for our vehicles. The purpose of this technology will be to sense if there's an obstacle ahead of the car, and help the driver to avoid it. Good news for drivers. And for anyone crossing their paths. Find out more about the 'Vision of Accident free Driving' at www.daimlerchrysler.com.

DAIMLERCHRYSLER

Answers for questions to come.

MUSIC

RELIGION ROCKS— SO SAYETH INVESTORS

Christian music and radio are defying industry slumps

Posted on the Web site of Salem Communications Corp. is a quotation from the Apostle Paul: "I planted, the workers watered, but God gave the growth."

You can almost hear the collective "amen" of investors in Salem, a relatively tiny Christian radio broadcasting company based in Camarillo, Calif. In the past year, it has outperformed the broader stock market, as well as some of radio's biggest players. By sticking to its religious niche and investing \$300 million in two-and-a-half years to expand to 83 stations, Salem is beginning to catch

the attention of some of Wall Street's biggest firms. "Because it's so focused on one area, it's really insulated from competition," says Victor B. Miller IV, analyst at Bear, Stearns & Co. He initiated coverage with a "buy" rating on May 7, the same day Salem reported its first-quarter revenues rose 18%, to \$35 million.

In an otherwise dismal year for the radio and music industries, hammered by an advertising downturn and digital piracy, respectively, Christian tunes are the surprising high note. The music, once thought to be too preachy and Southern rural to draw significant audiences, accounts today for some of the best growth numbers in radio and music. Christian and gospel album sales rose 13.5% in 2001, to

nearly \$50 million, vs. a 3% decline for all of music, according to sales-tracker SoundScan Inc. (chart).

The genre has been steadily gaining popularity over the years, but spiritual questions stirred up by September 11 are drawing waves of curious new listeners, say executives. "People are looking for a worship experience that they're not finding by singing hymns in church," says Malcolm L. Mimms, president of Word Entertainment, a Christian label Warner Music Group bought earlier this year for \$84 million. Also appealing, at least to younger fans, is that artists no longer fit the stereotype of, say, a hypnotically cheery Pat Boone. Today, Christian crossover acts, such as the dreadlocked and tattooed P.O.D. (Payable on Death), with its heavy rock and rap sound, are among the big sell-

ers. Its latest record, *Spiritual Warfare*, released in September, has sold 2.1 million albums.

Success is also a result of hipper marketing and more sophisticated music production. Mimms says he has pared down his artist roster from 45 to 30 in three years to focus more on producing and promoting bigger artists, who include Amy Grant and Jaci Velasquez. "For years, Christian music had a stigma and couldn't get out of the box," says Ryan Dadd, a consultant to Christian music labels. "The bands today, who look a lot cooler, are saying it's okay to search for faith."

No one is benefiting more from the spiritual urge than Salem, whose stations include contemporary Christian music and teach/talk formats. With more than \$1 billion in revenues, the broadcaster has seen its shares rise 36% in the past year vs. a 16% decline at Clear Channel Communications Inc., the industry's biggest player with 1,200 stations (chart).

The way Salem CEO Edward Atsinger III sees it, his company's potential listenership is the 40% of Americans who say they attend church at least once a week. "There's a real market for us," says Atsinger, a conservative evangelical Christian. After buying 32 stations since 2000, Salem

is busy converting stations to Christian formats, either music or all talk.

As a hedge against an ad downturn,

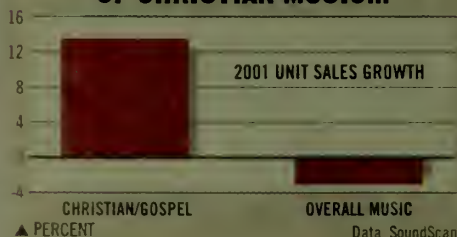
Salem sells "block programming" time to nonprofits and ministries. More than 40% of Salem's revenues come from these contracts, which have 5% to 10% annual increases built in. Still, the fastest growth comes from Salem's music stations, 12 of which are branded as Fish, an early Christian symbol it uses as station logos. In the first quarter, Salem saw 76% revenue growth at its FM stations, and ratings gains of 10% year-over-year. In one of music's worst years in a decade, the genre is giving investors and music execs a little faith.

By Tom Lowry in New York

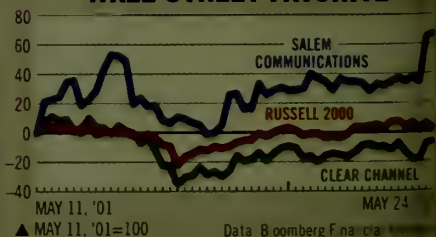


SPIRITUALLY COOL: The trend away from clean-cut images by Christian bands such as P.O.D. is boosting sales

THE GROWING POPULARITY OF CHRISTIAN MUSIC...



...IS MAKING SALEM A WALL STREET FAVORITE





INSTRUMENTS FOR PROFESSIONALS
 BREITLING has a single-minded commitment to building
 precise and ultra-reliable wrist instruments intended
 for the most demanding professionals. Our obsession
 is quality. Our goal is performance. Day after day, we
 consistently enhance the sturdiness and functionality of
 chronographs. And we submit all our movements to
 merciless testing procedures of the Swiss Official
 Chronometer Testing Institute (COSC). One simply does
 not become an aviation supplier by chance.

TOWNE
 JEWELERS

27775 Santa Margarita Parkway
 Mission Viejo, CA 92691
 949.859.7883

FOR A CATALOG, PLEASE CALL 800.641.7343

WWW.BREITLING.COM



BREITLING
 1884

INSTRUMENTS FOR PROFESSIONALS™

INVESTING

THE ULTIMATE VALUE INVESTORS

This new breed goes for big returns—and then gets out

Richard L. Grubman first leapt to fame in 2000, when former Enron Corp. CEO Jeffrey Skilling called him a dirty name for asking awkward questions about the company's financials. Since then, he has been throwing the book at Reader's Digest Association Inc., one of the world's most conservative, family-run publishing companies, because its stock is down by half from 18 months ago.

It has worked. On Apr. 15, the company buckled to pressure from Grubman, announcing it would create a single class of stock, effectively putting control of the company into shareholder hands rather than the company's charitable trust. Grubman wants more concessions (table), but the stock has since been upgraded by both Merrill Lynch & Co. and Morgan Stanley Dean Witter.

Grubman, managing director of Boston hedge fund Highfields Capital Management LP, is one of a new breed of ultimate value investors. They are a hybrid of the often nasty, hyperbolic corporate raiders of the 1980s, such as Carl Icahn and T. Boone Pickens, and the pure shareholder activist types of the 1990s. They use many of the weapons of the old-style raiders. But there's one big difference. "These guys usually don't want to take over a company, but they want to put it in play," says Patrick McGurn, vice-president at Institutional Shareholder Services, a proxy advisory firm. "They want to challenge existing management strategy for the sake of value creation."

Right now, the new value investors are the hottest players on Wall Street. And they have an embarrassment of targets. The secretive David L. Cohen of Iridian Asset Management LLC and David Winters of Franklin Mutual Advisers

Inc. are trying to oust Milan Panic, the controversial CEO of ICN Pharmaceuticals Inc., who was recently awarded a \$31 million bonus. Providence Capital Inc.'s Herbert Denton, a lanky exec with a penchant for motorbikes, has forced Alaska Air Group, Great Lakes Chemical, and Navistar International to abandon poison pills this year, and persuaded Footstar and Toys 'R' Us to modify theirs. Wiry Texas billionaire Samuel Wyly, who occasionally wears cowboy boots with suits, is said to be saddling up to take another run at Computer Associates International Inc., hoping to oust Chairman Charles Wang and other top brass.

Their style of investing is taking like a Fourth of July bottle rocket, fueled by the two-year bear market. Investors are using whatever tactics can to extract investment returns, Michael Useem, professor of management at the University of Pennsylvania's Wharton Business School. The Securities & Exchange Commission is right behind them. Earlier this year, it told money managers they should step up the heat on companies in which they invest. Sometimes, that's all it takes. "Numbers of companies, knowing they are under fire, are making volume changes," says ISS's McGurn.

If companies balk, they expose themselves to the full fury of the current anticorporate environment. Enron's bankruptcy—which snuffed out \$60 billion of investor wealth—has created unprecedented skepticism about the ability of management, executive and board independence. With that running strong, shareholder proposals many fomented by the ultimate



tors, are garnering on average 52% votes this year, as opposed to 42% year.

Increasing institutional ownership of stocks is adding to the momentum. In 1990, stock held by the likes of pension and mutual funds has risen to 51% of the domestic market, from 51%, according to Georgeson & Co., a shareholder research firm. The professionals have more incentive to slog it with management than individual investors. It's particularly true of index funds, which have to park the \$351 billion they manage in certain stocks regardless of how poorly a company is run. "Index funds have to focus on ways of getting through improving governance—hiring independent auditors, making boards are independent, reducing on awards," says John C. Bogle, founder of Vanguard Group Inc. There's a shortage of dissidents ready to help Providence's Denton collect fees from index funds and regular mutual funds, such as Legg Mason Value Trust and Dreman Value Management LLC. "Sometimes get paid to do the dirty work for clients," says Denton.

The strategy can pay off. Consider the \$156 billion California Public Employees Pension System, which takes underperforming companies to task.

From Jan. 1, 1987, to Nov. 30, 2000, the 95 companies CalPERS targeted produced an average compound return of 2.6 percentage points a year above the Standard & Poor's 500-stock index, according to a 2001 study by Wilshire Associates Inc. In the preceding five years, the same 95 companies underperformed the S&P by 14 points.

Still, success isn't guaranteed. Investors have to back the right horses—companies that have a racing chance of turning

FOUR KEY PLAYERS

They own big stakes in companies they want to shake up. Post-Enron, they're getting plenty of attention—and often getting their way

HERBERT DENTON Providence Capital

Got Alaska Air Group, Navistar International, and Great Lakes Chemical to revoke poison pills this year. Will continue to plague management at Aetna. Last year, led dissident group that won three board seats at ICN Pharmaceuticals.



DAVID WINTERS Franklin Mutual Advisers



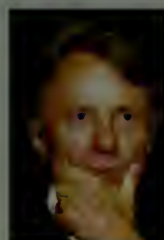
Along with Iridian Asset Management's David L. Cohen, soliciting proxies to elect three new directors at ICN. If they succeed, dissidents will control six of the nine board seats, and try to oust Chairman Milan Panic.

RICHARD GRUBMAN Highfields Capital

Attempted unsuccessfully to take control of Reader's Digest Association in March, 2002. But his pressure led the company to dismantle its dual-stock structure. He's unhappy with a management plan to entrench itself by using a staggered timetable to elect board members.

SAMUEL WYLY Ranger Governance

Lost proxy battle to win board seats at Computer Associates last year, but company later drafted independent directors and promised to abandon pro forma accounting. Now, wants to oust Chairman Charles Wang, CEO Sanjay Kumar, and other senior execs.



Data: BusinessWeek

around. Some shrewd observers say Wyly may be fighting a losing game. "Computer Associates is plagued with problems. The likelihood of a turnaround is very slim," says a money manager who asked not to be identified. Says a Computer Associates spokesman, "Wyly's interests are not aligned with the interests of either CA's shareholders or customers."

Even with a viable turnaround candidate, the strategy can bomb. Although Denton had Aetna Inc., the giant insurance company, in his sights for over a year. But his efforts were derailed when the stock got a lift from the recent rise in the insurance sector, and some big shareholders abandoned the cause. Moreover, some mutual-fund families refuse to back the dissi-

dents. "Mutual funds are serving corporations, managing their 401(k) money," says Vanguard's Bogle. "They don't want to offend companies and risk being shut out of business deals."

Still, pressure and the resulting spotlight from folks such as Wyly and Denton can prompt positive changes. For instance, Computer Associates promised to abandon pro forma accounting and add more independent directors to its board after Wyly and others raised the issues. And Aetna said it would review its corporate governance policies. "Every shareholder wins when an investor goes in who's willing to rake management over the coals," says Stephen Davis, president of Davis Global Advisors Inc., a corporate governance consultancy.

More and more independent money managers are playing the ultimate value game. Hedge funds—which have proliferated in the past few years and operate in a much more renegade fashion than mutual funds—are increasingly using an active strategy. "We look for companies that are asset-rich and management-poor," says Robert L. Chapman Jr., an El Segundo (Calif.)-based hedge fund manager (page 126). "We're like sharks sniffing for blood."

Franklin's Winters and Iridian's Cohen are certainly circling ICN. With their combined

10% stake, they joined forces, solicited proxies, and claim to have elected three new directors at the May 29 annual meeting. If the full vote count confirms their victory, they'll seek to oust CEO Milan Panic. Why ICN? Analysts say the company has good cash flow, excellent products, and a stock price that's cheap relative to its peers.

It also has dismal management. The SEC is seeking to bar Panic from serving again as an officer or director of any company, stemming from charges ICN had deceived investors over the approval status of a drug. "ICN's stock price reflects a high degree of investor skepticism that would be removed if dissidents take over the board," says Eric Miller, co-manager of the Heartland Value and Heartland Select Value funds. Panic said in a statement that while he disagreed with the dissident shareholders, "We pledge to take whatever actions are nec-

essary on our part to maximize value for the shareholders of ICN."

Like Cohen and Winters, most activists are opportunists. They look for companies that are selling at about half of what they figure they're worth, and well below their 52-week highs. That narrows their scope to companies with one or two major, but fixable, problems. "We never go after a company that is too complex to understand or fix," says Denton. They then spring into action, purchasing substantial shares of the company, writing letters to the CEO detailing their concerns, drafting shareholder proposals, and lobbying other big shareholders.

Most like to see at least a 50% return within two years, which they harvest as soon as they get it. "We are a catalyst investor," says Ralph Whitworth, head of Relational Investors LLC, a large value house that has CalPERS as a client. "We get involved in companies that have fallen out of favor and work to turn them around. Then we exit and reinvest that capital in a similar opportunity."

The strategy can produce pay dirt if a targeted company is bought out at a premium. Denton netted a 111% return when Comsat Corp., an investment he made two years earlier, was acquired by Lockheed Martin Corp. in 2000. Some investors even work behind the scenes to find potential acquirers. "We do perform an investment-banking function at times, but an acquisition is usually not our goal," says Denton, who ran the mergers and acquisitions business at Jeffries & Co. before starting Providence in 1991.

Extracting value, however, may not require such extreme measures. According to a February, 2002, study by Paul A. Gompers of Harvard Business School, Joy L. Ishii of Harvard University, and Andrew Metrick at the University of Pennsylvania's Wharton School, "democracy" companies—those that encourage shareholder rights—outperformed "dictatorship" companies that restrict them by over 9% per year throughout most of the 1990s.

Even so, "most value investors put money in companies, cross their fingers, and pray they do well," says Whitworth. "We know the companies we invest in will do well, because we're in the driver's seat." And when those companies do well, it more than pays to be an ultimate value investor.

By Marcia Vickers in New York

COMPANIES BEWARE...IT'S SHARK SEASON

Miss Manners wouldn't be pleased. When Robert L. Chapman Jr. bought a stake in Houston software vendor BindView Development Corp. in April last year, he fired off a letter of introduction to the board. They should, he suggested, take a few thousand bucks of company money, enroll in a college course on "basic finance." He explains matter-of-factly, "We don't want to develop a friendship with these folks, because it makes it a lot harder to take your gun out and shoot [their company]."



Chapman is one of a growing number of self-described investor activists who target small companies like BindView—typically with less than \$500 million in market cap. His goal: "maximizing shareholder value." He buys a 5% to 10% stake, lobbies other shareholders, and, if necessary, wages nasty proxy fights.

Other activists say the 36-year-old founder of Chapman Capital LLC, an El Segundo (Calif.) hedge fund, is giving the business a bad name. "He's an attack dog," says a longtime value investor who asked not to be identified. "This kind of approach can backfire, because it incites the board to circle the wagons and protect the

CEO," says Providence Capital's Herbert Denton.

Perhaps. But Chapman's investments aren't complaining: His six-year-old fund, with about \$100 million in assets, is flat year-to-date, but was up 50% in 2001 after a 41% gain in 2000.

Often, the dogged Chapman wins simply because he has a knack for embarrassing management in public. "They do a news check on me and realize I'm the worst guy to p---," he says. "They return my calls within minutes. Being the bad guy pays."

Chapman worked in trading and arbitrage at Goldman, Sachs & Co. during the late-1980s heyday of the arbitrageurs. He later worked at County NatWest Securities and Scudder, Stevens & Clark. His hero is none other than raider Carl Icahn.

Critics say Chapman and his ilk are pure opportunists. They don't care about better management or long-term shareholder value. They want to see companies sold off—fast—so they can pocket a profit, then move on. Chapman doesn't do that. "We want companies that are digestible, so that we can force [them] to be bought. That's our big home run," he says.

So far, he has strong-armed 10 companies into liquidating or selling

"They do a news check on me and realize I'm the worst guy to p--- off.... Being the bad guy pays"

ROBERT L. CHAPMAN JR.

off most of their divisions. They include those with forgettable names like Comman Systems, Preview Systems, and USA Intertergents. Lately, Chapman has been putting the heat on Cinar Corp., a Montreal animation company. He forced both the CEO and chairman to resign in April. Then, his fund and two others overthrew

the board and installed their own nominees and a new chairman. They're now seeking a buyer.

"Corporate governance is just a fancy way of saying a company needs to be run better," he says. E in Chapman's worldview, you run your company badly, you pay.

By Marcia Vickers in New York



THERE ARE THOSE WHO DO. AND THOSE WHO WOULDACOULDASHOULDA.

Which one are you? If you're the kind of person who's willing to put it all on the line to pursue your goal, there's AIG. The organization with more ways to manage risk and more financial solutions than anyone else. Everything from business insurance for growing companies to travel-accident coverage to retirement savings plans. All to help you act boldly in business and in life. So the next time you're facing an uphill challenge, contact AIG.

THE GREATEST RISK IS NOT TAKING ONE.™



INSURANCE, FINANCIAL SERVICES AND THE FREEDOM TO DARE.

COMMENTARY

By Joseph Weber

BOARDROOM CHARITY: REFORMS DON'T GO FAR ENOUGH

Charities that get some \$11 billion a year from Corporate America have come into the sights of post-Enron reformers. It's high time.

For years, companies have obscured conflicts of interests behind the apple-pie image of charity. It took Enron Corp.'s devotion to the causes of several of its directors to focus investors' minds on how such gifts can potentially compromise board independence. One glaring example is John Mendelsohn, president of the M.D. Anderson Cancer Center. Enron, its then-chairman Kenneth Lay, and their foundations collectively gave the center \$332,150, after Mendelsohn became an Enron director. Mendelsohn, who wasn't available to comment, is a member of Enron's key audit committee.

Legislation pending in Washington, as well as proposed rules from Nasdaq, may limit—or at least make companies disclose—such ties between management and nominally independent directors. Unfortunately, neither plan goes far enough.

Under the Nasdaq proposal, a board member affiliated with a charity that gets more than \$200,000 or 5% of its budget from the company would be deemed an insider—not an independent director. On paper that sounds good, because Nasdaq rules require independent directors in key board positions. In practice, the threshold is too high. For example, Wendy Lee Gramm, another Enron director, is associated with the Mercatus Center, a think tank at George Mason University that got \$60,000 from Enron and Lay—\$45,000 after she joined the board. A spokeswoman said Gramm wouldn't comment. But a gift that size—half a professor's salary at many institutions—could raise questions about a board member's impartiality.

The House's "Enron bill," which passed in April, skirts

that pitfall. If a companion bill passes the Senate and the measure becomes law, companies and "any executive officer" would have to disclose contributions of more than \$10,000 over five years to charities affiliated with directors, as well as noncash gifts such as volunteer time. The idea: Let investors judge directors' independence for themselves. "If you compromise the independence of the board, you compromise the single most important safety net a company has," says Sarah B. Teslik, executive director of the Council of Institutional Investors.

Still, the bill doesn't mandate dis-

closure of all contributions. It should. Shareholders have a right to know what management is doing with the corporation's discretionary cash. Or then can they see if the company is getting a return in public goodwill.

One troubling issue: Charities are the biggest opponents of reform. Both the Council on Foundations and the Independent Sector, a lobbying group for about 700 nonprofits, say that the House bill's reporting requirements would drive away donors. "[We have] always been very supportive of disclosure, openness, and accountability but it has to be reasonable," says President Sara E. Melendez.



CONFLICT OF INTEREST?

Outside director John Mendelsohn heads a cancer center that got over \$300,000 from Enron

Reynold Levy, president of New York's Lincoln Center for the Performing Arts, fears the paperwork would be "an administrative nightmare."

They have a point. "Any executive officer" is too vague. Does Congress really want to include private donations of every vice-president? Rules on noncash donations also beg for definition. "How do you value an in-kind contribution, such as going to meetings? If a CEO or top officer is making \$2 million, what is his time worth?" asks Samuel L. Hayes III, a Harvard Business School finance professor who's on the board of Tiffany & Co. and Swarthmore College.

Clearly, charitable ties don't compromise all directors. But appearances matter. The best test for a contribution's propriety is the blush test: If the thought of telling the world about it makes executives or directors red-cheeked, it's probably a bad idea.

With Mike McNamee in Washington

UNDER SCRUTINY

Proposals to limit companies' influence on outside directors with charitable gifts are controversial

THE PROPOSALS

- Directors must disclose ties to nonprofits
- Companies must reveal gifts over \$10,000 and noncash benefits
- Directors lose independent status if their charity gets \$200,000 or 5% of its budget from the company

THE OBJECTIONS

- Company donations could dry up
- Disclosure could become a privacy and paperwork nightmare
- Companies fear they might have to report all their executives' volunteer activities

Data: BusinessWeek, Council on Foundations, Nasdaq

THE NEW 2003 JAGUAR S-TYPE It's the first in its class to feature a 6-speed automatic transmission, for monumentally smooth acceleration. But the innovation doesn't stop there. It's packaged with a re-engineered suspension for a more refined ride, and a safety system so advanced, it actually thinks. When change like this happens, the whole world takes notice. The new S-TYPE. Beyond beautiful. **Exceptional at \$44,975.***

jaguar.com/us 1-800-4-JAGUAR

**IT MARKS A PROFOUND SHIFT IN THE UNIVERSE.
OF THEM, ACTUALLY.**



THE NEW S-TYPE

The art of performance



*MSRP. 2003 Jaguar S-TYPE 3.0 with 6-speed automatic and moonroof. Taxes, title and registration fees extra. ©2002 Jaguar Cars

ACCOUNTING

\$100 BILLION GOES POOF!

Why companies' shrinking net worth could hurt cash flow and raise borrowing costs

The hits just keep on coming. In the seven months since Enron collapsed, dozens of companies, from General Motors to AOL Time Warner, have confessed that they're worth far less than their books showed. Sometimes that's because assets are now worth a fraction of what companies paid a few years ago. In other cases, pension liabilities are soaring because of investment losses.

Either way, shareholder equity—a company's assets minus its liabilities—is shrinking dramatically. Some 154 companies in the Standard & Poor's 500-stock index lost \$104 billion of net worth in the first quarter alone, according to S&P. Bear, Stearns & Co. says that more



than 500 listed companies will have to write down acquisitions. For at least 14, the tab will be \$1 billion or more.

The devastating numbers reflect the damage the bear market has wrought to corporate finances. After AOL's January, 2002, disclosure that a \$54 billion cut in the value of Time Warner had slashed shareholder equity by a third, the stock

fell for four months—though it has already halved before the announcement. Gemstar-TV Guide International Inc. expects to slash its assets by about a billion, or two-thirds of its net worth.

Worse may be in store. The Financial Accounting Standards Board plans to issue new draft rules soon to get

CIO + 663%

Unicenter®
Infrastructure Management
663% Return on Investment

It's true! The numbers are in and it all adds up. Unicenter, the global leader in infrastructure management solutions, can deliver a whopping 663% ROI. Just ask IDC. It's right there in their recent white paper. And, because Unicenter is now modular, you can buy just the pieces you need, just when you need them.

balance-sheet activities onto company assets. That's sure to turn up more debt assets, increasing the leverage of companies and making equity look even worse. Rating agencies may downgrade companies when debts they didn't know about show up—raising borrowing costs. Some shareholder-equity cuts will come from cash from companies. Underfunded pension liabilities siphon off investment money and distract management from other tasks. Consider General Motors Corp. Because its U.S. pension investments fell 14%—to \$67 billion by Dec. 31, 2001—it had to slash equity by one-third, or \$9.6 billion. GM paid a \$2 billion makeup payment earlier this year—nearly half the proceeds from bond issues. And it will have to cover more cash, unless returns on oil and gas rise dramatically.

Other companies are in the same boat. UAL Corp. and Caterpillar Inc. had to subtract 5% and 3%, respectively, from their shareholder equity last year. "If stock market returns don't improve, there are going to be a lot more companies like these," says actuary Adrien R. Embarde of pension consultants Milliman USA Inc.

Pension woes could produce some surprises, since most shareholders have paid scant attention to the issue. Accounting involved can be confusing

BLOWN AWAY

Billions of dollars in shareholders' equity—assets minus liabilities—have been wiped out this year

COMPANY	HITS TO SHAREHOLDER EQUITY		PERCENT OF TOTAL EQUITY	REASON
	BILLIONS			
AOL TIME WARNER	\$54.2	36%		Value of assets cut
CLEAR CHANNEL	16.8	56		Value of assets cut
GENERAL MOTORS	9.6	32		Pension underfunded
GEMSTAR-TV GUIDE	5.0	68		Value of assets cut
AETNA	3.0	30		Value of assets cut
UAL	0.3	5		Pension underfunded
CATERPILLAR	0.2	3		Pension underfunded

Data: BusinessWeek, Milliman USA, company reports

because three different sets of rules apply. For instance, GM didn't have to trim reported earnings even though it paid out cash to bolster the pension fund. The equity cut just showed up as a balance-sheet item.

Asset writedowns like AOL's have little direct impact on a business. They're

making headlines because of new rules that make companies account more frequently for changes in goodwill—the premium paid for companies over what they were really worth. But they don't affect cash. "A goodwill charge is [only] a reflection that in the past you overpaid," says Bear Stearns analyst Janet Pegg.

Shrinking shareholder equity does mean that companies' debt-to-equity ratios will get worse. That gives lenders a potential cudgel to beat them with, as most loan agreements have covenants requiring minimum ratios. Still, if goodwill is the only issue, most lenders will change the covenants. Aetna Inc. negotiated with J.P. Morgan Chase & Co. to trim its shareholder equity requirement ahead of a \$3 billion markdown. "Your lender usually has more interest in your being alive than dead," says Jack Ciesielski, publisher of *The Analysts' Accounting Observer*.

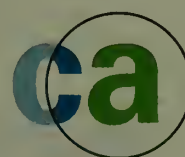
Already shareholders were feeling low over portfolio losses. The erosion of corporate balance sheets knocks them down again. It's the next verse of the bear market blues.

By David Henry in New York, with David Welch in Detroit

ROI = CEO

All while still enjoying the benefits of pay-as-you-go licensing. So there's no better way for your company to realize its true potential. And, if you're the CIO, there's no better way for you to realize yours.

To read the white paper, just go to ca.com/unicenter/roi.



Computer Associates™

ELLO TOMORROW™ | WE ARE COMPUTER ASSOCIATES | THE SOFTWARE THAT MANAGES eBUSINESS™

© 2002 Computer Associates International, Inc. (CAI). All trademarks, trade names, service marks, and logos referenced herein belong to their respective companies. Source: "Quantifying The Business Value Of Infrastructure Management: An Empirical ROI Study," IDC, 2001.



REAL ESTATE

A 'FEEDING FRENZY' IN LONDON PROPERTY

Sellers are asking—and getting—fantasy prices. Can it last?

Last month, real-estate brokers Goldschmidt & Howland listed a four-bedroom, 2,300-square-foot house in the leafy North London neighborhood of Hampstead for \$3 million. Within two weeks they had nine bids—and a deal for about \$4 million. Not bad for a rather ordinary house that needed updating. "This is a prime example of a feeding frenzy," says John Hughes, a managing director at the firm.

Frenzy is right. After a brief lull following September 11, London house prices are once again soaring: They were up 16% year-on-year in the first quarter, according to the Nationwide Building Society. Although hit hard by the financial crash, the City of London is still the force fueling the market for top-end properties, as buyers flush with 1990s fortunes seek alternatives to stagnant stock markets.

Well-heeled Americans and Europeans are also driving the high-end market, while Britons, prosperous after years of solid growth in their economy, are keeping mid-market prices rising. Finally, plenty of buyers are picking up houses with a mind to renting them for the income, adding to the

speculative froth. As a result, sellers are demanding what brokers think are fantasy prices—and getting them. That leads their neighbors to set their sights even higher. Buyers suffer sticker shock but are still willing to pay up. After all, property is the favorite investment of the British. "Safe as houses," the old saying goes.

Some analysts are wondering how long this boom can run. "I think it's a bubble, particularly in London," says Roger Bootle, managing director of Capital Economics, consultants specializing in real estate. He thinks a sharp decline in values is coming—probably early next year, after the Bank of England starts raising rates. He still doubts things will get as rough as the early 1990s crash, when prices fell by about 30% in two years, devastating both homeowners and contractors.

Some warning signs already are appearing.

CHEYNE WALK, CHELSEA

Some foresee a collapse in house prices starting early next year.

Average London house prices are now eight times the annual take-home pay in the capital—close to the 10 times rate that prevailed just before the 1980s crash. And despite soaring prices, rents have slipped by about 10% on average, according to John Phillips, head of lettings and management at Hamptons International, a London estate firm. "With such a glut of properties, I cannot envisage anyone staying at these levels," says Phillips, a consultant who finds many homes for expatriates.

But there is still lots of fuel for the boom. Recent mortgage rates of 4.9%, combined with downpayments of 5%—or sometimes even less—are making even pricey houses look affordable. So far, there's no sign the bank will wind up holding the bag: Repossessions and mortgages in arrears were at a year low at the end of 2001, according to the Council of Mortgage Lenders.

All that easy money is churning up stocks of unsold houses that are at their thinnest since 1979, brokered by Hamptons, which serves the mid- and high-end markets, the average price has jumped almost 30% in the past year alone, to \$894,000. "It's amazing how little £3 million [\$4.5 million] buys in London today," says an Owen, who handles high-end properties at Hamptons. Prime residences in London are apt to command as much as \$1,750 a square foot this year, putting it above Paris (\$855) and London (\$500), according to London real-estate firm FPD Savills International.

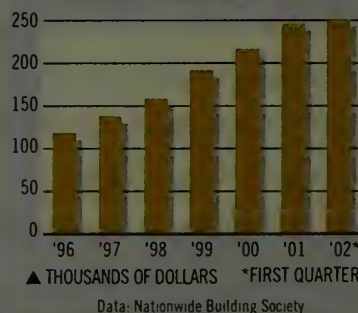
For those not blessed with limitless wealth, the house hunt can be tough. Kathleen G. Rausch, an interior designer, scoured the better London neighborhoods for a year for something in the \$725,000 range. "We couldn't find anything that wasn't an absolute disaster,"

she says. She finally settled for a two-bedroom place in a western suburb around that price, thinking it was a bargain. But now her neighbors are listing their four-bedroom properties for \$1.5 million. They will struggle to get it—as long as the boom psychology lasts. *By Stanley*

in London

A HOUSING BUBBLE?

AVERAGE LONDON HOME PRICES



the new bottom line.



You've got a plan. A vision.
So far, so good.

Now there's just one critical item
left on the agenda. Finding the financing
to make it all work.

That's where CIT comes in.
For almost a century, we've been
helping companies with lending and
leasing solutions that turn ideas into
action, keep the momentum going,
and still manage the bottom line.

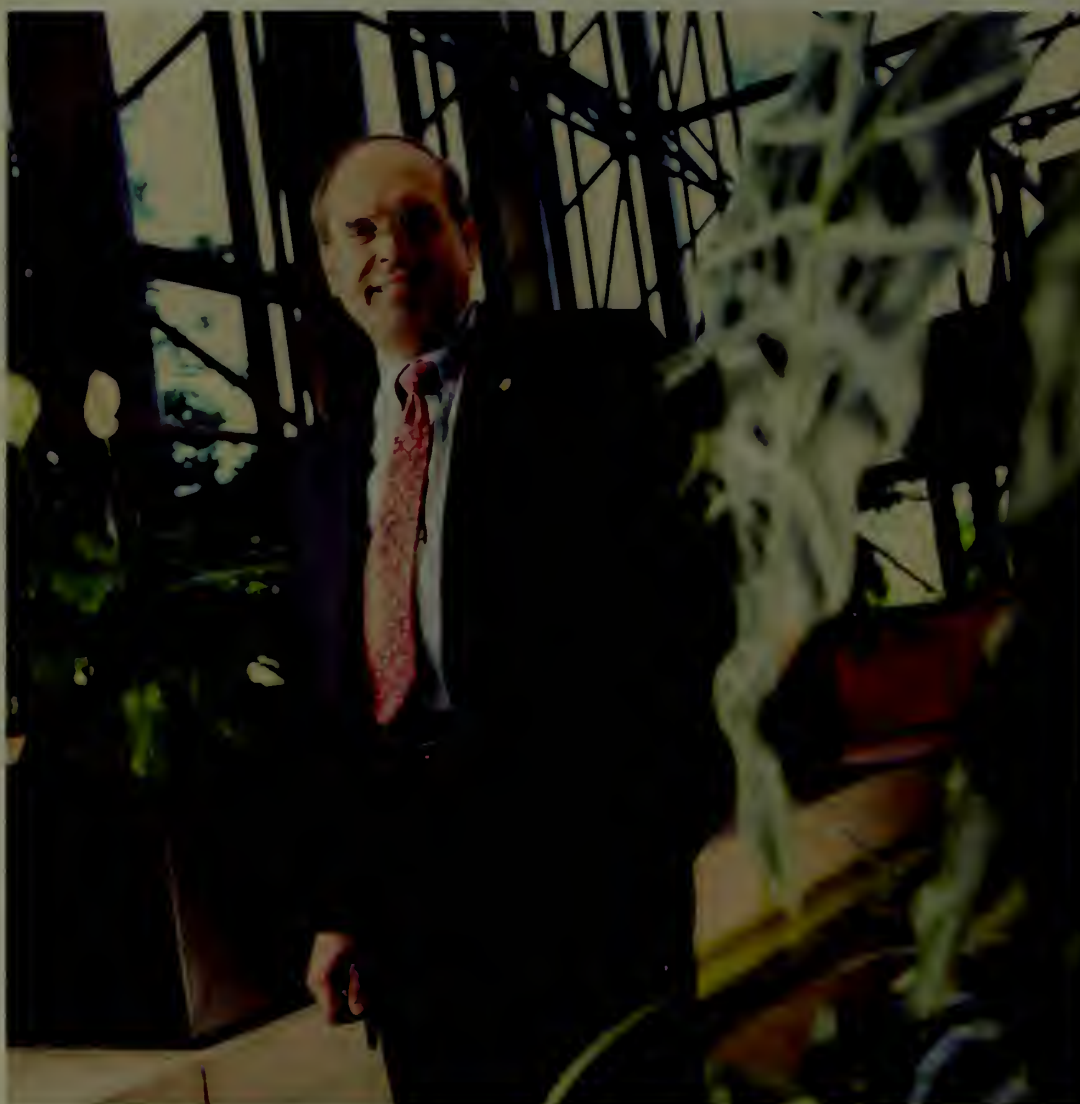
When all is said and done,
that's our bottom line.

We're CIT. Today's financing leader.
On the Web at CIT.com.

Where new ideas prove their worth.



MAIN STREET TRUMPS WALL STREET



John Bachmann's St. Louis firm is winning over investors by doing business the way it always has

John W. Bachmann may be Merrill Lynch & Co.'s toughest competition. Far from Wall Street, he oversees the country's biggest network of brokerage offices, 8,357 at last count. As managing partner of St. Louis-based Edward Jones for the past 22 years, he has shunned the free-wheeling ways of Wall Street. His firm

does little investment banking, so it doesn't have the conflicts of interest that Merrill and others are trying to explain to government regulators. Its 35 research analysts cannot own stock in the industries they cover. Bachmann doesn't believe in online trading. He is not too keen on margin trading, either. And Edward Jones is winning 1,000 Merrill clients a month.

But Bachmann, 63, will only gently chide his rivals. "I'm not going to criticize someone else," he says. "But if you are being compensated for bringing in deals and writing reports, that should be disclosed in bold print. The key principle

is to tell clients how the system works to the advantage of Edward Jones. During the dot-com boom, the firm tried to dissuade its clients from buying in many of the initial public offerings that promised too much. Bachmann didn't want to see Mr. and Mrs. Jones stuck with stock in InfoSpace Inc. or Pets.com. While they may have watched the frenzy from the sidelines, that's where they were

during the crash, too. "We missed a number of things," says Bachmann. "But most of what we missed turned to dust anyway. Some ridiculed the firm's refusal to offer customer line trading, but Bachmann wouldn't budge. "Almost every Internet consultant was in the camp of us," he recalls. "But in the market we serve value relationships. We do not want to encourage you to gamble."

That determination served Edward Jones well over the past year, former Merrill clients have been stampeding to the firm—without Edward Jones wooing them. Merrill's defection rate is so high because it no longer offers personalized service. Now, those investors have to make do with representatives at call centers. Still, Jones is a relatively small company, with \$255 billion under management compared to Merrill's \$1.1 trillion-plus. It is also a more profitable one. Despite Jones's cost office network, for

STRESSING SERVICE

You won't find call centers, online trading, or analysts who own what they cover

the firm's pretax returns on equity outperformed those of most rivals. In 2001, Jones's ROE was 24%, well above Merrill's 19% or Charles Schwab's 15%. Even though high-margin underwriting accounts for only 3% of the \$2.1 billion in revenues, Jones still managed to beat investment-banking heavyweight Morgan Stanley Dean Witter & Co. in the past five years, with an average return of 40%, vs. Morgan's 30%.

Edward Jones's profits outpace those of its rivals largely because it doesn't pay Wall Street-size salaries or bonuses. Its brokers sell an array of financial products, including mutual funds



WHAT KIND OF DECISIONS DO YOU
MAKE IN HOLLYWOOD?
IF YOU'RE FOX™, ENTERTAINING ONES.

You need the right information
Fox Filmed Entertainment
has this. That's how they've
come one of the most
successful creators and distributors
of blockbuster films in the world.

And that's why they chose
Crystal Decisions™. Our web-
based reporting, analysis and
information delivery technology
helps Fox track critical business
information through distribution

channels and leverage that
information to make smarter
decisions. With over 10 million
licenses shipped, and partners
including SAP™ and Microsoft®,
we've proven our solutions

deliver information, cut costs
and improve productivity.
Want to learn more? Visit: [www.
crystaldecisions.com/ent/005/](http://www.crystaldecisions.com/ent/005/),
or call 1-866-821-3525.



ACCESS
GRANTED

now, more than ever,
feel secure
that only the right people
access your **N**etwork.

Keep your valuable data out of the wrong hands with the power of Access and Security solutions from Novell. Administrators can choose one or multiple authentication methods to identify users with absolute certainty. Users have the ease of a single enforceable ID they use anytime, anywhere—resulting in up to a 95 percent decrease in password-related help desk calls. And our software can be integrated with a full range of your existing security products, from password protection to biometrics. To have the power of Novell at your fingertips, visit www.novell.com/solutions/access_security today.

Novell.
the power to chaNge

JOHN W. BACHMANN

IN Nov. 16, 1938, in Wabash, Ill.

EDUCATION

economics, Wabash College, 1960; MBA, Northwestern Univ., 1962. Wabash College's baseball team in 1959 ►

CURRENT POSITION

Managing partner, Edward Jones, since 1980.

ST JOB

a teenager, earned \$1.20 an hour delivering furniture for his father's furniture store in Salem, Ill. Worked for Edward Jones during college summer vacations as a messenger and road marker. Rented a room at the local YMCA for \$11 a week.

Insurance and annuities, credit cards, and loans, and they have 40% of the commission—a fact the company makes clear. That most other investment managers, though, and its analysts failed

to get clients out of big losers such as Enron Corp. and Lucent Technologies until it was too late. The firm began dumping clients to dump Enron in mid-October when it was selling at \$22 a share. Jones's analysts still have a "hold" on Lucent after riding it down to \$10 a share. "We missed the call," concedes Dave Otto, head of research. "It was clearly a mistake." Nonetheless, the firm's portfolio of recommended stocks is consistently among the top performers, according to Zacks Investment Research Inc. Jones's model portfolio over the past five years is up by 100% through last year, vs. 66.2% for the Standard & Poor's 500-stock index. One of the reasons Edward Jones is able to resist the temptations of the trading and other fast-money investments in the late 1990s was probably his Midwestern roots and the conservatism that is an essential part of the Edward Jones ethos. His personal guru is the staid Peter F. Drucker, the most influential management philosopher of the last century. And, there's nothing flashy about Edward Jones. Even his philanthropic work



THE BOOK THAT CHANGED HIS LIFE

In 1973, picked up management guru Peter Drucker's newly published *Management: Tasks, Responsibilities, Practices* and later adopted it as the bible for Edward Jones. Hired Drucker as a consultant in 1981, a relationship that continues to this day.

AFTER HOURS

Passionate about the arts, active in the community, loves to travel.

FAMILY

Married to Katharine, a law professor and expert in voting rights. They met while monitoring the first free election in Bulgaria in 1990. Two children from a previous marriage.



HANDS-ON

In 1963, investment rep Bachmann posed for an ad

he spent a morning nailing shingles on the roof of a house his firm was building in Atlanta for International Habitat for Humanity. "He didn't just make a cameo appearance," says Jim McKenzie, a Jones investment rep who has known Bachmann for 40 years.

Bachmann, who will retire at the end of 2003, started at Edward Jones as a messenger and board marker, working summer vacations during college for \$175 a month and living in a room at the local YMCA for \$11 a week. At Wabash College, where he majored in economics and played baseball with more enthusiasm than skill, he wasn't exactly a star pupil. "College was hard for me," he says. "But I worked very hard at it, and I learned a lot." After earning his MBA at Northwestern University in 1962, he returned to Edward Jones as a full-time researcher.

His real apprenticeship, however, began in Columbia, Mo., where he ran a branch office from 1963 to 1970. Like all investment reps then, Bachmann went door to door to drum up business. On his first call in a nearby town called Moberly, he went into Carpenter's Jew-

Novell.

presents

one Net

tech fact of the week.

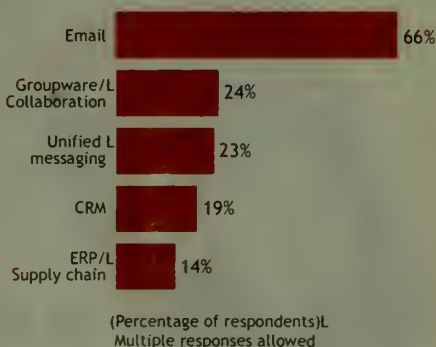
After email, what major business application is driving demand for bandwidth?

- a. ERP/Supply chain
- b. Groupware/Collaboration
- c. CRM
- d. Unified messaging

answer: "b"

Groupware and collaboration applications were reported to have the most significant impact on bandwidth requirements by over 20% of respondents in middle market-sized companies.

Applications driving demand for greater bandwidth in the middle-sized market

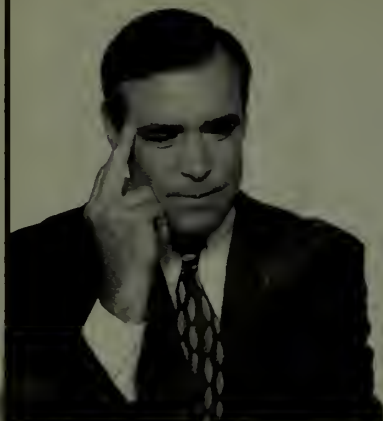


Data provided by

In-StatMDR

www.instat.com

<http://www.novell.com/products/groupwise>



Think About...

\$450,000 1st Year Profit
\$2,000,000* 2nd Year Buyout



- Our company establishes small medical facilities under a rapidly expanding 21-year-old government program.
- Medical background completely unnecessary. Nearly 300 facilities already contracted nationwide...and growing.

Please visit our web site: **www.corf.com**

Taking a bold look at the business of recovery, conversion, and energy exploration.

A BusinessWeek Special Advertising Section

Topics covering the changing face of energy in the 21st century:



The leading companies
 New technologies
 Electric-tech ventures
 Integrating IT platforms
 Global exploration
 Environmental stewardship

On sale: August 9

For advertising information, contact
stacy_sass-mcanulty@businessweek.com
 212-512-6296

Issue date: August 19/26
 Ad close: July 8

BusinessWeek

A Division of The McGraw-Hill Companies



AGL keyword: BW

People

elroy Store and approached a dressed in black. "I'm here to Carpenter," Bachmann announced. Buried my husband this morning replied. Mistaking him for a man, she added: "It's wonderful for come by." Bachmann froze, unable to summon a word. "I was so shocked I drove straight back to Columbus," recalls. "I said, 'If it's this hard, I'm going to work at the Post Office.'"

But Bachmann recovered. He mastered the drill, persuading merchants, and others to purchase mutual funds by asking a simple question: "If you were to look at the investment portfolio of the most successful person in town, what do you think you'd do?" By 1970, he had moved to headquarters as a general partner and began to help Edward D. Jones, founder's son, with planning. An epiphany of sorts occurred two years later when he and Jones read Drucker's newly published book, *Management: Tasks, Responsibilities, Practices*. Bachmann saw the tome as a manual of instructions on how to build a business by, among other things, setting clear objectives at the top and delegating jobs that allow for personal growth. Shortly after Bachmann succeeded Jones as managing partner in 1980, he appealed to Drucker directly, offering the firm as "a laboratory for his ideas. Drucker, then 71, signed him as a consultant, a role he continues to play.

It was a near-perfect match. Edward Jones is the antithesis of the Street firm, Drucker is the anti-establishment. Indeed, he once dubbed him an "insultant" who "scolds clients for their mistakes." Drucker rarely, if ever, gives advice. Instead, he queries his clients about a situation differently.

It was a Drucker question that altered the direction of Jones's strategy. For years, it argued that the company's appeal was mainly to large and small-town Americans. With the exception of St. Louis and Kansas, the firm avoided metropolitan markets where it might collide with the big players. At a consulting session in 1980, Drucker asked if the two cities were more productive than the rural locations. Turns out they were. Drucker's insight led to an aggressive growth plan that has brought Edward Jones to almost every major city in the U.S. as well as Canada and Britain.

Now, Wall Street's troubles buoy that growth. But Bachmann, much of a gentleman to gloat about

By John A. in New

Get Involved!!



Photography by Anthony Abuzeide

Junior Achievement builds America's future every day in classrooms throughout the Bay Area.

NOW is YOUR opportunity to get involved, too - either as a volunteer or as a sponsor.

You and/or your company can make a difference in young people's lives. We want you. We need you!

Call 1-877-737-0370 today.

Be a hero!

Junior Achievement is a non-profit organization that teaches children the skills they need to succeed in life by partnering a business person with a classroom.



**Junior Achievement®
of the Bay Area, Inc.**

www.jaba.org



Make the best executive decision...
advertise in **The MNI Executive Network.**

M N I
MEDIA NETWORKS, INC.
Local Ads. National Mags.

877.ASK.4MNI

www.mni.com

Spin and fluff have no place outside the laundry room.

The Barker Portfolio: independent, hype-free financial advice that won't leave investors hanging out to dry. For savvy investment advice, turn to BusinessWeek.

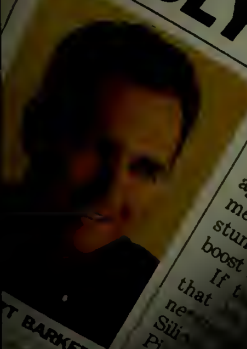
To reach savvy investors, contact your BusinessWeek Account Manager.

See inside **BusinessWeek**

BusinessWeek Investor

The Barker Portfolio

SECRETS OF THE TRULY SHAMELESS

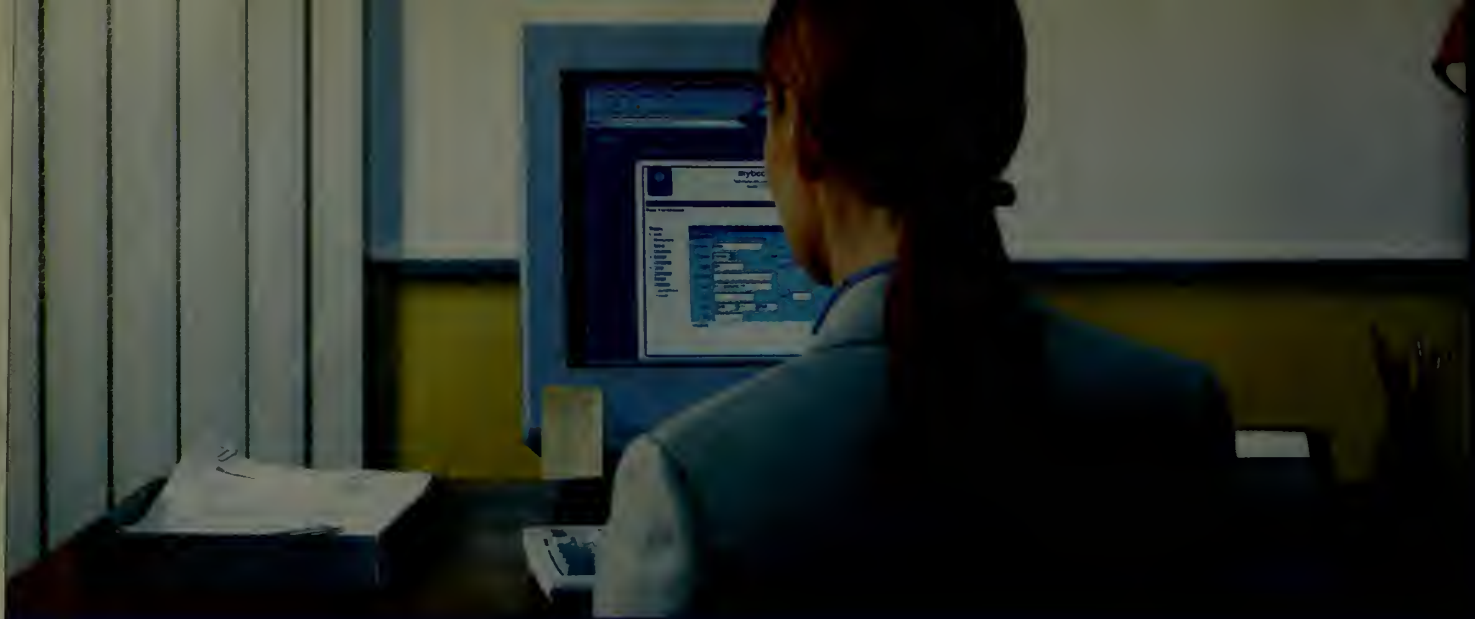


ST BARKER
k om

Long ago, a
pah. The
age, I nev
ment. A
stumbled
boost m
If L
that
new
Silv
Pl

chut-
ven as I
middle
rove-
I
hip
turn on U.S. Steel's
assertions as this
directors deter
experience det
groups

proxy shows such quiet insurance
first mention of Usher's \$6 million pe
tween parentheses, this way: "includ
pletion and retention agreement with
man of the board of directors of U.S. Stee
other things, includes a \$6 million bo
5. Know that history is bunk. Pay m
discouraging record, such as the laggi
ing of Marathon's tracking stock
came CEO in 1995 or the ne
directors as this
experience det
groups



IRONICALLY, YOUR COMPANY'S
HUMAN RESOURCES
PEOPLE WOULD BE MORE EFFECTIVE IF THEY
SPENT LESS TIME DEALING WITH HUMANS.

With our new, cost-effective Blue Cross Internet Services, now your HR professionals can keep human interaction to a comfortable, productive minimum. When employees need information on anything from claims status to doctor listings, they can visit www.bluecrossca.com – instead of your HR department. And your HR people will be even more resourceful by enrolling employees online and managing their plans at www.mybcclink.com. To help boost the productivity of the humans at your company, visit these sites today.



BlueCross
of California

The Power of B

Health • Life • Dental • Pharmacy • Behavioral Health • EAP

Health, Dental, Pharmacy and Behavioral Health products from Blue Cross of California (BCC) and/or BC Life & Health Insurance Co. (BCL&H). Life insurance from BCL&H. BCC and BCL&H are Independent Licensees of the Insurance Association. © 2002 BCC.

It may be the only vacation where you come back richer.

INVESTMENT STRATEGIES



Ken Shea

Managing Director
Standard & Poor's

Gain a unique market perspective through the influential S&P 500 index and the favorite sectors and stocks from S&P's team of analysts.

ECONOMIC FORECASTS



Seymour Zucker

Senior Editor
BusinessWeek

Hear views on the economy and benefit from insights acquired from decades of economic and market coverage.

PROFITABLE PORTFOLIOS



Joel Friedman

Director of Standard
& Poor's Mutual
Funds Services

A review of S&P's current mutual fund recommendations as well as how to make them part of a highly profitable portfolio.

Investment Seminar at Sea

Aboard the award-winning Crystal Symphony 11-day luxury cruise, Nov 27 to Dec 10, 2002.

Visiting Tortola, St. Maarten, St. Barts, Aruba, Costa Rica with Panama Canal transit.



BusinessWeek

**STANDARD
& POOR'S**

Limited Space.
For reservations,
call toll-free
1-866-468-5700.



Deluxe Stateroom with Verandah

Deluxe Staterooms
start at \$2,795 per person*

Deluxe Staterooms with Verandah
start at \$4,310 per person*

SEMINAR REGISTRATION FEE
only \$495 additional per person
or \$895 additional per couple

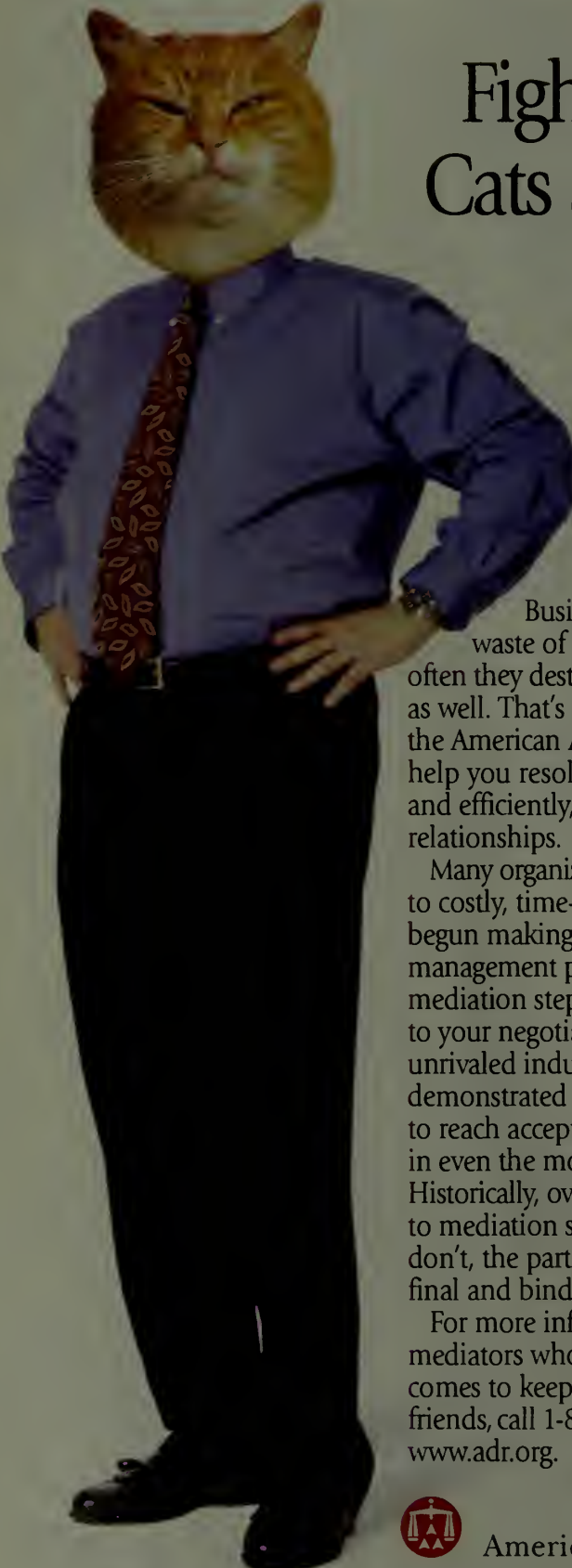


GREAT AMERICAN TRAVEL

Call toll-free 1-866-468-5700

businessweek.greattravel.com

including port charges based on double occupancy. Call for airfare add-ons. Seminar only available with cruise purchase. All categories subject to prior sale. Ship's registry: Bahamas



Fighting Like Cats and Dogs?

Business disputes aren't just a waste of time and money – all too often they destroy professional relationships as well. That's why it's good to know that the American Arbitration Association can help you resolve your disputes quickly and efficiently, preserving valued business relationships.

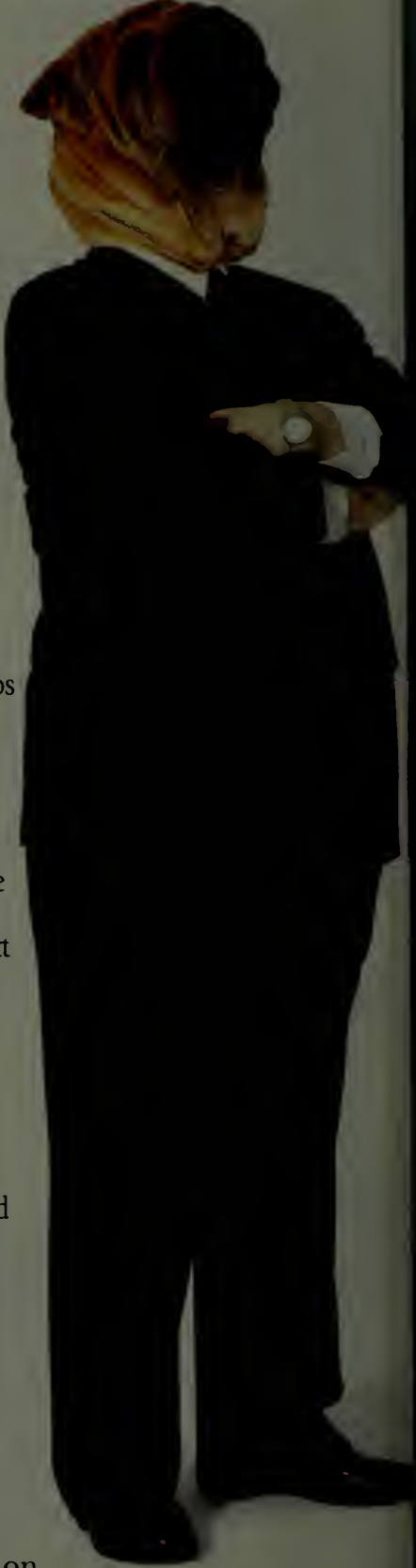
Many organizations, seeking an alternative to costly, time-consuming litigation, have begun making use of our two-stage conflict management process. It begins with a mediation step. AAA mediators add value to your negotiation because of their unrivaled industry-specific expertise and demonstrated success in assisting parties to reach acceptable business solutions in even the most complex disputes. Historically, over 85% of disputes submitted to mediation settle. And for those that don't, the parties move seamlessly into a final and binding arbitration process.

For more information on working with mediators who are unsurpassed when it comes to keeping everyone the best of friends, call 1-800-311-3799 or visit us at www.adr.org.



American Arbitration Association

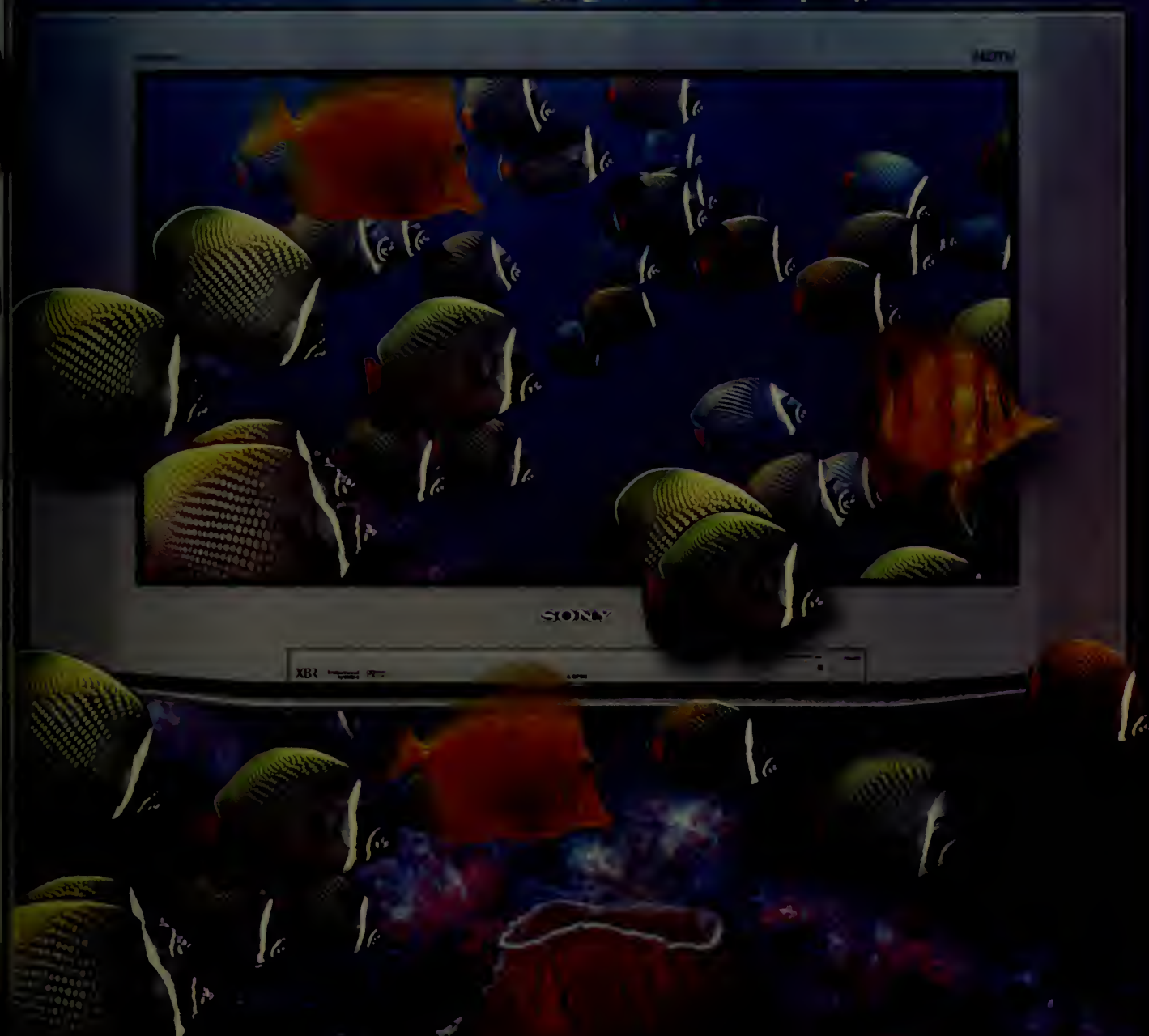
Dispute Resolution Services Worldwide



BusinessWeek

Investor

MAKING LIFE RICHER



HDTV: Not Ready for Prime Time

■ Home Theater
In a Box

■ A New Take on
Fund Expenses

■ Barker: A
Consultant's IPO

HDTV: High-Anxiety Television

The gear is pricey and confusing—and likely to be obsolete by next year

BY CLIFF EDWARDS

For months, every time I walked into an electronics shop, glitzy high-definition televisions beckoned. They seduced me with the promise of crystal-clear pictures, amazing stereo sound, and wide-screen viewing. But after succumbing to the temptation of HDTV, I'm ready to pull the plug on the brief affair—at least for now.

Digital-TV sales have jumped fourfold in the past year, with some 2.6 million sets sold to date, thanks largely to a booming DVD market, falling prices, and demand for home theater (the marriage of high-quality audio and video in your family room). Yet only a small percentage of those buyers have hooked up the sets to receive

high-definition digital signals. If my experience is any indicator, there's good reason why: simply is not ready for prime time.

In our HDTV challenge, I set up three high-definition sets and one "HD-ready" TV in one room. In testing loaners of four top-of-the-line models from Thomson Multimedia, Sony, Samsung, and Mitsubishi, just about everything that could go wrong did. One set conked out after one day. Others couldn't receive the digital signals from local stations. All apparently lack technology that allows consumers to perform basic functions, such as recording high-definition programs. "A little has been standard about this whole [HDTV] transition," says Tim Alessi, Sony's marketing director for TVs and set-top boxes.

That's an understatement. The learning curve on HDTV is so steep that it's easy to fall off. The first challenge is understanding the differences in digital-TV formats. A true wide-screen set has a rectangular, movie-screen shape rather than the more square traditional one. It should include an integrated tuner capable of decoding the 18 approved types of high-definition signals. Such sets retail for \$3,000 or more.

So-called HD-ready sets and HD monitors, by contrast, cost less than \$1,500, can be square-shaped, and most often need an additional set-top box to decode digital signals in the

most common formats: standard-definition quality good (480p), standard-definition cinema better (720p), and standard-definition and marquee theater like best (1080i). Those set-top



which often require you to flip a decoding switch to adjust for different formats or standards. A set can sell for about \$600. To fit wide-screen, high-definition pictures onto conventional sets, manufacturers typically add black bands at the top and bottom. Critics note, however, that continued use of this system can lead to so-called "burn-in," where the darkened strips become permanently imprinted on TV screens.

The biggest issue is choosing a set that suits your best. Manufacturers offer diagonal viewing angles ranging from 27 inches to nearly 7 feet. It's hard to tell which brand has the best picture. Most in-store demos are not showing high-definition content. Instead, you're more likely to be watching a DVD, only one step above standard TV.

Getting the set home is no snap, either. Because many weigh in excess of 200 pounds, retailers often tack on an extra charge for what's known as white-glove service, where a company delivers the set to your home, sets it up, and hauls away the packaging. RCA charged for such service in delivering a 38-inch set with an integrated DirecTV set-top box, but the contractor insisted he was required to take it to the front door of my building, even though my apartment was just up a flight of stairs and there was an elevator. He charged me once after I slipped him \$20. Fortunately, the other deliveries went without a hitch. Once the set is unpacked and plugged in, it's as simple as hitting the remote, right? Not if you want to watch high-definition television. Local broadcasts, if available, are transmitted mostly in standard digital (480p)—not high definition. CBS broadcasts much of its prime-time lineup in the high-definition format of 1,080 interlaced lines while ABC sends out a few prime-time programs in 720p. Premium movie channels HBO and Showtime Networks each offer a channel that sends out higher-quality digital signals.

The trick is getting those signals to your TV. Most of the cable industry offers no high-definition programming, and only about 15% of commercial TV stations have made the switch to broadcasting even the improved pictures of standard digital programming. At the urging of the Federal Communications Commission, many cable companies this month pledged to do better in the near future (page 144).

After doing my homework, I figured I could at least receive a ghost-free digital signal in San Francisco, where most stations had long since been offering digital feeds. Wrong again. Another mistake: You need an antenna to pull the digital signal out of the air.

I then learned, here's where things got interesting. The first antenna—a RadioShack model as big as the new BMW Mini Cooper but just as stylish—got me only one station, an NBC affiliate in Sacramento, some 80 miles to the west. I then discovered that Terk Technologies' \$300 model made especially for HDTV signals. To my surprise, though, this radar-shaped

antenna works only in certain locations, of which my address is not one. A Terk representative next recommended a \$50 antenna as the most likely to catch any local signal. The best I could get? On a clear day, that NBC station in Sacramento. On rainy days, forget it.

What was the problem? Like satellite feeds, digital signals are line-of-sight: You either get them or you don't. I didn't, according to the tech gurus I consulted, because my apartment is situated below San Francisco's major broadcasting tower. The local DTV signals were overshooting every antenna I tried to put in their path. For those folks burdened with the same circumstances, the installer's boss noted that a \$5,000 oscillator could tune

into the signals as they bounced off nearby buildings. Since I doubted my expense account would cover such a gadget, I declined.

I had better luck with satellite providers. The two main services, DirecTV and EchoStar Communications, already send pictures digitally, and the differences between watching them on analog and HDTV sets was remarkable. For high-definition content, DirecTV and EchoStar offer HBO and Showtime, while EchoStar throws in, under "special waiver," an East or West Coast feed of CBS. Each service also requires a special antenna to get HD feeds.

But I had troubles with satellite services, too. The RCA was the set that inexplicably conked out after just a few hours' operation. After RCA dispatched a service representative to replace the entire innards, the built-in DirecTV tuner and HD decoder made setup a snap.

When I turned to the HD-ready, 30-inch Samsung television, it was a different story. I learned that some DirecTV boxes are incapable of receiving high-definition content, including the com-



In our tests of top-of-the-line loaners from Thomson Multimedia, Sony, Samsung, and Mitsubishi, just about everything that could go wrong did

Sizing Up HDTV

MODEL

MITSUBISHI WS-55909
55-in. projection TV
\$5,500*

RCA F38310
38-in. wide-screen
direct view
\$2,200*

SAMSUNG TSL3099WHF
Tantus DynaFlat 30-in.
wide-screen direct view
\$2,500*

SONY WEGA KD34XBR2
34-in. wide-screen
direct view
\$3,999*

*Suggested retail

COMMENTS

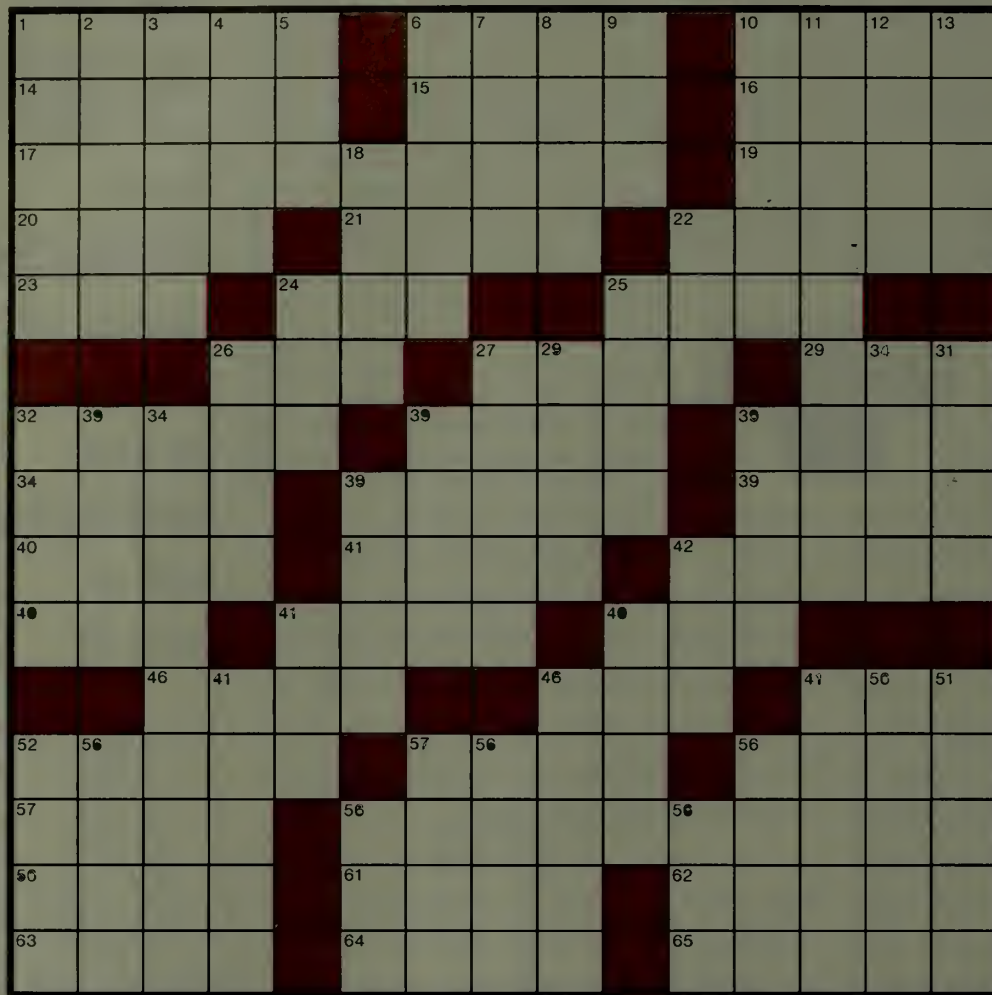
Guarantees technology upgrades for an additional cost. Needs a very large room for viewing. Speakers are weak, remotes confusing.

Contains integrated DirecTV and high-definition tuners. Curved screen picks up glare. At 216 lbs., the unit is a heavyweight. No way to record either digital or analog programs from the television.

Fits comfortably in any living room but is smaller than most might want. Needs set-top box to decode high-definition signals. Operating remote control requires a degree in electronics.

Standout technology with numerous audio/visual inputs. Built-in tuner automatically upgrades even today's analog signals. Silver finish and front-mounted speakers are more prone to damage. Lacks connector to record digital programs from TV.

Mixing Business with Pleasure by Lincoln



ACROSS

1. George Steinbrenner's headquarters
6. Word on the back of a \$1 bill
10. In that case
14. Early computer
15. Installed, as carpeting
16. E.F. Hutton's actress daughter
17. Like some investing styles
19. Medical school course: Abbr.
20. German industrial region
21. Hawaiian coffee area
22. Ralph Lauren brand
23. Aerospatiale product
24. Kyoto cash

25. Conversant with
26. "The Emperor's __, Fully Visible Clothes" (see page at right)
27. Tennis star Mandlikova
29. Corporate URL name ender
32. Corporate department
35. Kind of computer
36. Flooring material
37. General Mills cereal
38. Canon competitor
39. Ultimate objectives
40. Room to swing __
41. Demeanor
42. Summons electronically
43. Dole or Woodward
44. Watering holes

45. Sandwich filler
46. 401(k) alternatives
48. Electrified fish
49. Country singer Tillis
52. Pirelli's home base
54. Airport transportation
56. Antitoxins
57. Spruce up copy
58. Like some cables
60. Head, to Henri
61. Fox News Channel rival
62. Indigent
63. Utters
64. Elevator compartments
65. Lots of land

DOWN

1. Rips
2. Black __ cattle
3. Physical strength
4. Henry VIII's sixth
5. Topnotch
6. George W's solicitor gen
7. April forecast
8. Opera star
9. Poem of praise
10. Potato source
11. Startup's concern
12. Something simple
13. Horse food
18. Distort, as data
22. Books pro
24. Thumbs-up response
25. Sun's operating system
26. Company founded by Steve Jobs in '85
27. Adds to the payroll
28. Of unknown authorship
30. Ye __ Tea Shoppe
31. Predicament
32. Wild guess
33. BP Amoco purchase of
34. Balance-sheet entry
35. '70s Israeli prime minis
36. Work group
38. Year-end holiday
42. Buddy
44. Make illegal
45. One with a legacy
47. S&L posting
48. VPs, e.g.
49. Man with a principle
50. Take for __ (swindle)
51. Federated store
52. National League team
53. Brainstorm
54. Magazine editor Brown
55. Shortened word, for sh
56. Risky business
58. Cable TV regulator
59. Off __ tangent

For answers to this puzzle:

Turn to page 157 in this week's issue of BusinessWeek or visit Mixing Business with Pleasure by Lincoln on www.businessweek.com/adsections

Puzzle created by: Stanley Newman.



L I N C O L N

800 688-8898

POWER-FOLDING 3RD ROW SATIN NICKEL INTERIOR POWER RUNNING BOARDS POWER LIFTGATE


LINCOLN

NAVIGATOR

EMPEROR'S NEW,
FULLY VISIBLE CLOTHES.

THE ALL-NEW 2003 LINCOLN NAVIGATOR. First we graced it with modern features, then we graced it with modern design. There are those who travel. And those who travel well. For more information or to schedule a test drive, visit Lincoln.com or call 800 688-8898.

There's not much
to watch, either:
There's no
high-definition
programming on
most cable TV

bined TiVo/DirectTV box in my possession. (That's a unit that combines the TiVo personal video recorder and DirectTV satellite receiver.) A separate Samsung box could decode the high-definition signal, but there was no way to feed the unscrambled DirectTV signal from the TiVo unit to the Samsung decoder. The only solution? Buy yet another stand-alone DirectTV box.

EchoStar seemed a better bet, with more HDTV offerings for the same price. But there was fine print here, too. EchoStar's decoder box adds \$600 to the HDTV tab, plus you need a second dish to pair up regular offerings with the HDTV content. That's because the feed comes from a satellite in a different orbit. If you're using either satellite service, you'll have to get an additional antenna for local broadcasts.

Even if you do finally get set up, there's another compelling reason to pass on HDTV: Your brand-new set may be obsolete. Bowing to Hollywood's concerns about digital piracy, TV makers currently ship sets that allow you only to watch high-definition programs, not record them. But in

April, satellite providers and six electronic companies—Thomson, Matsushita, Sony, Philips Electronics, and Toshiba—announce support for a new, studio-sanctioned HDTV connector that transmits encrypted high-definition audio and video and doesn't allow for recording. So it's now practically a given that broadband will deliver the best content through the connector, which will not be included in definition TV sets until at least next year.

What happens to the \$4 billion worth already on the market? Some manufacturers suggest that existing HDTV owners will have to shell out more money for another set-top box that includes the connector technology, while others say the ramifications are unclear. "We have a grandfather issue we have to manage very carefully," David Arland, director of U.S. government public relations for Thomson/RCA. Unfortunately, while the consumer-electronics and broadcast industries grapple with such issues, the market for high-definition television is enough to give a man a few gray hairs.



SO WHEN DOES THE PICTURE CLEAR?

BY CLIFF EDWARDS

In 1997, Congress ordered most broadcasters to convert from analog to digital signals by 2006 and granted them about \$70 billion worth of new television spectrum to do so. With digital TV, consumers would receive clearer pictures, better sound, more channels, and interactive programming. Yet despite specific government-set timetables to achieve that

goal, the digital changeover has moved far more slowly than expected.

Who's to blame? That depends on whom you ask. Like squabbling children, Hollywood studios and other broadcasters say they won't provide content until manufacturers of high-definition televisions include foolproof mechanisms to prevent piracy of easily duplicated digital programs. TV makers argue that broadcasters refuse to work with them to solve the problem. And cable companies and local television providers say transmitting digital and interactive signals makes no sense financially until more programming is available. The upshot: Fewer than 1% of U.S. homes are watching high-definition content.

There's finally some movement to break the logjam. Replacing veiled threats of punishment, in April Federal Communications Commission Chairman Michael Powell called on major networks, local affiliates, and cable operators to put their differences to rest temporarily and move forward. Many agreed to FCC's wishes, paving the way for more digital content by this fall. Meantime, TV makers agreed in principle to two major standards for delivering copy-proof content to their sets. While it's still unclear which standard will prevail, new sets incorporating one or both will come to market by early next year.

But don't run out and buy a new HDTV yet. Industry officials say privately that the government will extend the 2006 deadline by at least four years. That means cheaper analog sets will continue to dominate for years.



Home Theater Just Got Cheap and Easy

Smaller systems provide lots of bang for the buck

BY Y ARMSTRONG

It seems like only yesterday that home theaters were expensive indulgences just for movie moguls and wealthy audio enthusiasts. Anchored by a giant-screen TV and a laser-disk player, they almost demanded a separate room for housing esoteric amplifiers, projectors, video enhancers, and—especially—gargantuan speakers all around to mimic the experience of going to the movies.

No more. The astounding success of movies on DVD, with their crisp, digital pictures and surround soundtracks, is bringing home theater to the masses. And now, manufacturers have come up with inexpensive systems that combine six speakers and all the electronics you need to get started. The industry calls it “home theater in a box,” and it’s the fastest-growing consumer-electronics category this year. The only other component you need is a TV,

and you probably already have that.

I recently set up four separate systems, ranging in price from \$350 to \$1,000, in my living room. I wanted not so much to review them—sound characteristics and quality are mostly a matter of individual preference—as to understand what you get for the money. My conclusion: Home theaters in a box are an incredible value.

Hundreds of these systems are on the market. Except for very low-end models, which cannot decode the Dolby Digital soundtrack that virtually all new DVDs are recorded in, they all come with five bookshelf speak-

ers and a large subwoofer that sits on the floor to deliver the bass tones that are so important to movie special effects. The subwoofer is not an option. Because the main speakers are small, they cannot reproduce the critical bass frequencies.

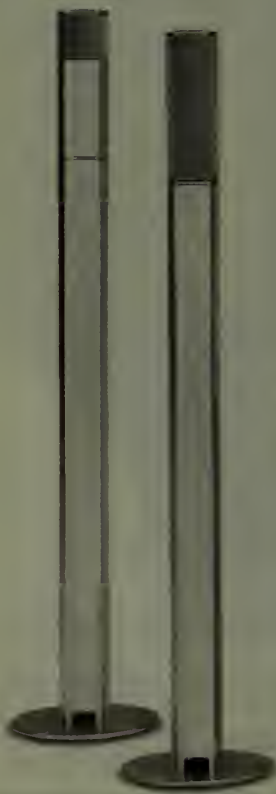
The systems contain a relatively low-power AM/FM receiver for firing the speakers and feeding the video signal to the TV. Most also include a DVD player or five-disk changer, either as a separate component or, starting last year, built into the receiver. The DVD player adds

True surround-sound systems start at \$300 and include everything but the TV



The best way to evaluate the quality of the receiver is to look at the connectors on the back. Generally, the more the better

SONY'S \$1,000 THEATER IN A BOX COMES WITH STANDS



only about \$100 to the price. All of the new DVD players can handle CDs, including those that you've burned yourself, and most of them will play MP3 files as well.

The usual way to put together a home theater is to hook your DVD player to your home audio system. But chances are you'll need a new receiver that can switch video sources, can decode surround sound, and has enough speaker terminals. The appeal of the boxed systems is they're a snap to set up, and they take up very little space. Even enthusiasts with home theaters are buying them as a second system for a bedroom, say, or for teenagers who want surround sound for their video games.

I looked at systems from three of the top four manufacturers. Sony, with a third of the market, is the leader; I picked its \$1,000 DAVC900. I also tried out Pioneer's \$500 HTP-620DV, and Kenwood's \$599 DVT-505. On the low end, I borrowed RCA's RT-DVD1, which retails for \$350 to \$400. You can get substantial discounts from Internet merchants, but beware. Shipping costs of \$40 to \$80 can eat up much of the savings.

You get pretty much what you pay for, but not in the way you might think. When I popped in *Jurassic Park III*, even the inexpensive RCA had more than enough power to bring the dueling dinosaurs uncomfortably alive in my modest-sized living room.

Where the differences show is in the accessories and the flexibility and features of the electronics. All of the systems come with speaker cables, for instance, but RCA and Kenwood provided cables so short that I couldn't get the separation between the front speakers that I wanted.

Another example: You'll need to place the speakers, front and rear, at more-or-less ear level. That means you'll need bookshelves, a home entertainment unit, or tables to raise them. You can also consider a system that includes speaker stands. You can always buy them separately, but then you have cords dangling from the speakers. The \$1,000 Sony system comes with four three-foot-tall metal stands that are pre-wired for the speakers: The cable plugs into the base of the stand.

The options on the audio-video receiver are equally important. Besides Dolby Digital, there's a second surround-sound format called DTS, for Digital Theater System, that some experts consider superior. If you own DVDs encoded in DTS, you'll want to make sure the system can handle them. Only RCA's couldn't.

The best way to evaluate the receiver is to look at the connectors on the back. Generally, the more the better. All



HOME ENTERTAINMENT



the systems come with a composite video to connect to your TV. If a better picture for your TV matters, you should look for a video connection or, better yet, a composite video output, a grouping of three red, blue, and green plugs. (You'll have to buy the cable separately; make sure your TV can accept them.)

Even with the inexpensive systems, you'll be able to hook up a satellite or digital cable receiver and a VCR. If you want to add other audio components, such as CD players and cassette decks, make sure the system has enough input and output jacks.

Particular attention to the number and type of digital audio connectors. Fiber-optic cables, which transmit the signals over fiber-optic cables, are the best. They look like little jacks on the back of the unit, and are often protected with a plastic pin or cover that's stuck into the hole. You'll need the digital inputs to connect digital sources, such as CD and DVD players, digital satellite and cable set-top boxes. If you plan on recording to a CD or DVD burner, you'll need a digital output as well.

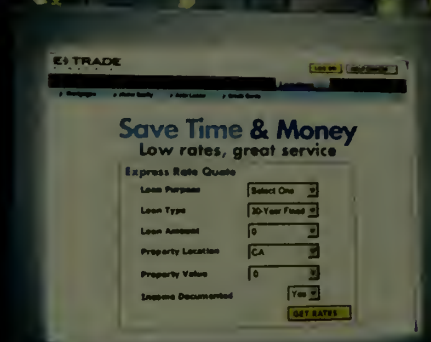
Take a good look at the remote control. You'll find that it's often the weakest part of the system. Are the buttons big enough? Are they laid out in an organized, easy-to-remember fashion? Remember, it's going to be dark in your home theater. Ironically, my favorite was the remote that came with the cheapest system. It had an hourglass shape that best fit my hand, big, clearly marked buttons. Compare that to Pioneer's maze of tiny, identically shaped buttons laid out as a grid.

When you get your system home, you'll find it's a breeze to set up. All the speaker cables are color-coded, and there are quick-start guides around. It's easy enough that you probably won't even need to open the owner's manual. You should, though, especially if your couch isn't the same distance away from the speakers. You'll be able to tune each speaker's frequency and delay—the time it takes for the sound to reach each speaker to reach your ears—to fit your room layout.

At some point, you'll want to head back to the store for some tweaks. Your shopping trip will require a heftier grade of speaker cable, especially for the cheaper systems, and a video or component cable for a better connection to the TV. Oh yes, this time don't forget the popco

With mortgage rates this low, you may find yourself asking some questions when house hunting, like "Does the east wing also have a pool?"

You may be surprised to learn just how much house you can actually afford. Considering we guarantee the lowest combination of rates and fees on new home loans and refinances. And with the help of our personal loan consultants, there's nothing intimidating or complex about it either. Whether you're on the phone or online, the whole application process takes just minutes. E*TRADE Financial. More of what you need to stay ahead in today's economy.



E*TRADE

Save Time & Money
Low rates, great service

Express Rate Quote

Loan Purpose	Select One
Loan Type	30-Year Fixed
Loan Amount	\$
Property Location	CA
Property Value	\$
Impound Documented	Yes

GET RATES

Visit etrade.com, call 1-800-ETRADE1 or stop by any of our twenty four E*TRADE Financial locations.

E*TRADE[®]
FINANCIAL

PLANNING · INVESTING · BANKING · LENDING · ADVICE

Mortgage products and services are offered by E*TRADE Mortgage Corp., a wholly owned subsidiary of E*TRADE Bank. © 2007 E*TRADE Group, Inc. All rights reserved. E*TRADE is a registered trademark of E*TRADE Group, Inc. and its subsidiaries.

Are Fund Expenses Eating Your Lunch?

A new method of calculation shows they may be

BY LEWIS BRAHAM

How much are you paying mutual-fund companies to manage and operate your funds? Industrywide, the average expense ratio—that's expenses as a percentage of assets—is 1.4% a year for domestic equity funds.

That may not seem like much, and as often as fund critics and the media complain about it, the figure has been fairly static for years.

What if expenses were reported as a percentage of returns? That puts mutual-fund overhead in a whole new light—and it's not pretty. With poor returns and high fees, expenses for Alliance Capital Management funds ended up consuming nearly 16% a year of the gross returns over the past five years. Even at Vanguard Group, the lowest-cost fund outfit, expenses came

to 4.2%. These are among the findings of a recent study by Kanon Bloch Carré, a Boston-based investment consulting firm.

The study focused on the 20 largest fund families, and looked just at diversified U.S. equity funds. That got rid of the higher-cost sector and foreign funds. Since results are reported net after expenses, Kanon added expenses to returns to come up with a gross annualized return. Then, Kanon divided the expense ratio by the gross return. That yields the percentage of returns eaten up by management fees and operational costs (table).

The study has its critics. Not all families have the same mix of funds, and the returns can vary depending on which investment style is in favor. "Alliance Capital traditionally has



been a growth-stock-oriented fund family. John Meyers, an Alliance Capital spokesman, says, "But growth investing has been out of favor for some time now." Meyers thinks the study is biased toward value-oriented families, which have fared better in the bear market.

But Kanon's study covers the five years ended Mar. 31. That interval included both bear and bull markets, and periods in which growth funds led and lagged. "When I ran a study at the end of 1999, investors were only between 2% to 5% of profits at most fund families," says William Dougherty, Kanon's president. "There was too much bull-market bias in the results. But this year's study covered the good and the bad—a full market cycle. Moreover, growth-oriented Janus Funds did well despite the downturn because of low expenses and high bull-market returns."

The study reinforces the importance of investing in low-cost funds. Even when the market is good, fees are significant. "A \$10,000 investment in a fund with a 2% expense ratio that delivers a 10% gross annualized return will be worth only \$500,000 after 40 years if you don't deduct fees," says Brian Mattes, a Vanguard spokesman. "After deducting them, your investment is worth only \$500,000."

Moreover, managers of high-cost funds may take on more risk than low-cost fund managers do because they need a higher return to meet their benchmarks after deducting their fees. The lowest-cost fund families—Vanguard, American Funds, and Fidelity Investments—ranked 1st, 2nd, and 4th out of the 20 fund families, based on Kanon's risk-adjusted returns. The three with the worst such returns—American Express, Alliance Capital, and Dreyfus—all had significantly higher expense ratios.

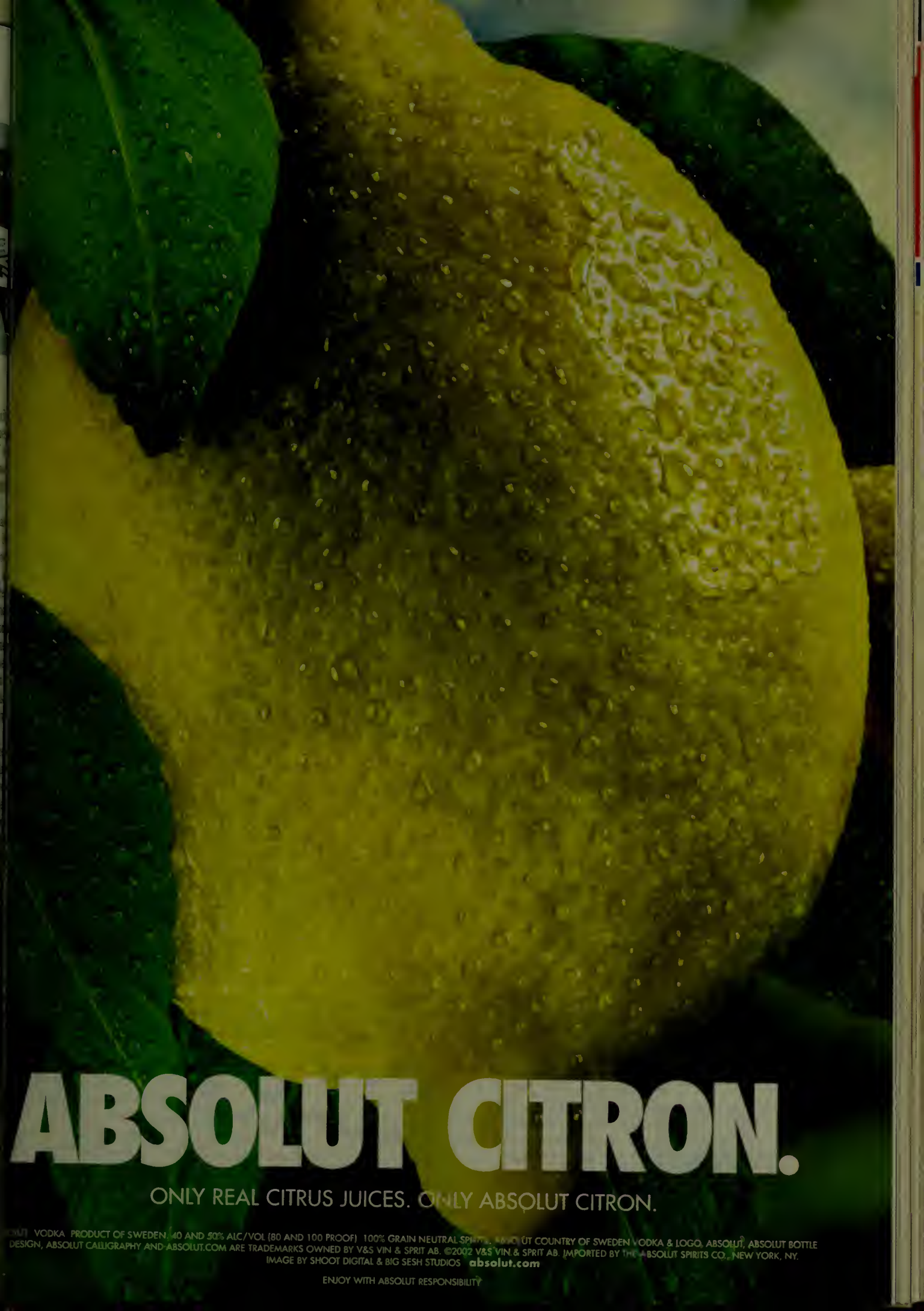
This data would be even more useful if it were calculated for individual funds, so investors could better assess their performance. If you have the returns and the expense ratios, you can crunch the numbers for your particular fund with just a pencil and paper. You might find that the fund company is getting paid more than you are—and you're the one whose investment is at risk.

A Look at the Profits You're Losing

FUND FAMILY	AVERAGE EXPENSE RATIO*	5-YR. GROSS ANNUALIZED RETURNS**	PORTION OF GROSS RETURN FUNDS KEEP†
VANGUARD	0.46%	11.05%	4.2%
AMERICAN FUNDS	0.65	13.71	4.7
FIDELITY	0.67	11.97	5.6
JANUS	0.83	13.29	6.2
MERRILL LYNCH	0.97	14.44	6.7
T. ROWE PRICE	0.88	11.82	7.4
AMVESCO	1.18	14.24	8.3
MFS	1.10	12.97	8.5
FRANKLIN/TEMPLETON	0.99	11.60	8.5
AMERICAN CENTURY	1.00	11.33	8.8
SALOMON SMITH BARNEY	0.98	10.87	9.0
OPPENHEIMER	1.23	12.87	9.6
FLEET/LIBERTY	1.05	10.74	9.8
MSDW	1.23	12.33	10.0
FIDELITY ADVISOR	1.25	12.01	10.4
DREYFUS	1.08	9.13	11.8
DEUTSCHE/SCUDDER	1.18	9.95	11.9
PUTNAM	1.02	8.25	12.4
AMERICAN EXPRESS	0.99	7.76	12.8
ALLIANCE CAPITAL	1.37	8.64	15.9

*As of Mar. 31. **Appreciation plus reinvestment of dividends and capital gains before management fees and other expenses are deducted. Period ended Mar. 31. †Annually

Data: Kanon Bloch Carré



ABSOLUT CITRON.

ONLY REAL CITRUS JUICES. ONLY ABSOLUT CITRON.

ABSOLUT VODKA. PRODUCT OF SWEDEN. 40 AND 50% ALC/VOL (80 AND 100 PROOF). 100% GRAIN NEUTRAL SPIRITS. ABSOLUT COUNTRY OF SWEDEN VODKA & LOGO, ABSOLUT, ABSOLUT BOTTLE DESIGN, ABSOLUT CALLIGRAPHY AND ABSOLUT.COM ARE TRADEMARKS OWNED BY V&S VIN & SPRIT AB. ©2002 V&S VIN & SPRIT AB. IMPORTED BY THE ABSOLUT SPIRITS CO., NEW YORK, NY. IMAGE BY SHOOT DIGITAL & BIG SESH STUDIOS absolut.com

ENJOY WITH ABSOLUT RESPONSIBILITY

THIS IPO COULD USE A CONSULTANT



BY ROBERT BARKER
rb@businessweek.com

What you won't see in the publicity for the new PwC Consulting is talk about profitability. That's because there isn't much

Talk about close calls. It was the fall of 2000, and Hewlett-Packard was negotiating to buy PricewaterhouseCoopers's consulting unit. Just a few months earlier, Ernst & Young had gotten \$11 billion for its consulting arm. Talk was that PwC's might be worth \$18 billion to HP. But they could not come to terms, and HP went on to buy Compaq Computer. Today, PwC's consulting biz is preparing to go public. From the look of its financial results, I'll tell you this: HP should be thankful it wound up with Compaq.

PwC Consulting's initial public offering, to be led by Morgan Stanley, is still some weeks away.

So, such crucial details as a price range for the IPO shares and how much of the company will be sold to public investors remain to be worked out and disclosed. The dealmakers are even waiting on creation of a new name for the 32,000-employee management and information-technology consulting firm. It plans to declare its new corporate identity in a \$110 million publicity campaign, much as Accenture did last year when it ditched its heritage as an Arthur Andersen off-spring and sold its own stock.

Yet what you surely will not see in all the publicity is much talk of PwC Consulting's profitability. That's because there isn't much to speak of. Not, at least, by the accounting they will use after the IPO. Then, the company will be organized as a corporation instead of as a partnership, meaning that it will have to allocate costs differently. Instead of compensating its partners via large, pretax distributions, it will instead pay them salaries. As a corporation, it also will have to start paying income taxes.

To suggest what its financial position and performance might have been in the past if it had been a corporation, PwC Consulting's securities filing includes some pro forma statements. They are not promising. Its fiscal years end on June 30. In fiscal 2001, the company would have lost \$15.7 million on total revenues of \$7.1 billion. Its operating profit margin would have

come to 1.2%. While fiscal 2001 was unimpressive, the most recently reported period, the six months ended Dec. 31, proved worse. On \$6.1 billion in total revenues, the consulting unit lost an operating profit of \$3.4 million and a \$22.3 million net loss. PwC Consulting has yet disclosed results for the March quarter.

All of this might be less disturbing if the company were not following two of its chief rivals into the realm of publicly traded corporations (table). The bigger of the two, Accenture, enjoyed an operating profit margin of nearly 12% in its most recent six months, ended Feb. 28. Consulting, the smallest of the three, posted a 5.7% operating margin in the six months ended Mar. 31. Both of these rivals also reported solid bottom-line profits.

Next to the performance of its rivals, PwC Consulting's pro forma numbers are so weak that I couldn't help but grow suspicious. Some

this comparison may not be fair. A company's spokespersons, however, decline to make any comparison for this executive. The O'Neill or other executives to elaborate or dispute the appearance of PwC Consulting's profitability at the time of its sale of stock.

Naturally, private investors would at least as much as about the company's

outlook. But on that score, its securities filing is anything but optimistic, at least in the short term. Business these days—which is to say a sluggish economy and the scandal over corporate auditors' conflicts of interest—is bad. In the March quarter, PwC Consulting said its client log plunged in the U.S.—the direct result of clients choosing to keep PwC as their auditor, looking elsewhere when it came to consulting help.

That depressing fact is driving the company's IPO. Once separated from PwC, it stands to lose back clients and grow anew. As the deal comes

to market, I will be looking to see how the shares are priced. Accenture went public last July at about 1.3 times the past six months' revenues. It now trades at a bit above that multiple. PwC Consulting went public in February, 2001, and now trades at 1.1 times revenues. In this regard, PwC Consulting would come out a market value under \$9 billion, half what it might have fetched from Hewlett-Packard not years back. Talk about market opportunities.

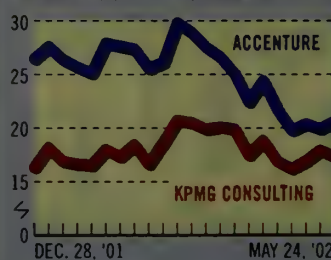
How PwC's Profits Stack Up Against Rivals'

COMPANY	SYMBOL	TOTAL REVENUES*	OPERATING MARGIN	NET INCOME*
accenture	ACN	\$6819	11.8%	\$92
KPMG Consulting	KCIN	1176	5.7	30
PWC CONSULTING	n/a	3270	0.1	-22

*Most recently reported six months, dollars in millions. For Accenture, six-month period ended Feb. 28, 2002; for KPMG, Mar. 31; for PwC, Dec. 31.

Data: Company reports, BusinessWeek

Market For Consultants



▲ WEEKLY CLOSING PRICE

Data: S&P Comstock

BusinessWeek online

For barker.online, go to
www.businessweek.com/
investor/
and click on "Columns"



most intellectual



cutest smile



best hair



sharpest image
hp digital projector xb31



gets around
digital projector sb21

Introducing the digital projectors most likely to succeed.

With 1500 lumens, the **hp digital projector xb31** projects the most brilliant, vivid images for a projector weighing less than 4 pounds. It features a contrast ratio of 1800:1 and XGA native resolution, for presentations that impress. And with a breakthrough weight of 2.2 pounds (lighter than most laptops), the micro-portable **hp digital projector sb21** is the tool of choice for mobile professionals on the go.

For limited-time, introductory promotions including a **FREE** subscription to *Presentations* magazine, go to www.hp.com/go/projector. To buy now, visit your local hp reseller or call 1-888-355-9836 and mention promotion code 12254.

Let the popularity contest begin.



DLP™
A TEXAS INSTRUMENTS TECHNOLOGY

hp®
invent

NEW CENTURY HAS LEGS



BY GENE G. MARCIAL

Hot gains at New Century may keep coming, say some. Natestech's remedy for sexual dysfunction can be inhaled. Vornado has its eye on a Midtown Manhattan gem

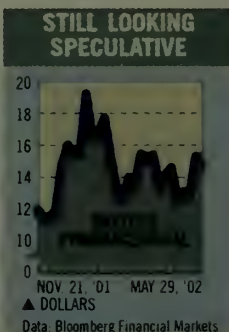
Can mortgage banker New Century Financial (NCEN) keep on sprinting? Shares streaked from 9 on Sept. 24 to 26 on May 29. Some think the stock has a ways to run, and several fund managers are snapping up more. When the stock was highlighted in this column two years ago—then at 8—New Century had few fans. Now some see it hitting the mid-40s by August, when strong second-quarter results are expected.

Otis Bradley, research director at Gilford Securities, who has raised his 2002 earnings estimate to \$6.27 a share, says the stock is cheap, trading at 4.1 times his 2002 estimate, and just 3.7 times his forecast of \$6.91 for 2003. New Century earned \$2.28 in 2001. Bradley expects housing to stay strong. So he sees the stock hitting 60 by yearend—8.6 times his 2003 profit estimate. Its industry peers trade at 9 to 12 times their 2003 earnings estimates, says Bradley, who owns shares. Gilford has no business ties with New Century. Bradley puts its 2002 free cash flow at \$243 million, or \$9.35 a share, and 2003's at \$256 million, or \$9.48. He says it will pay off debt of \$120 million this year. So he expects the company to up its 20¢ dividend and split the stock in 2002.

Gary Steiner of Awad Asset Management, which started buying last year when the stock was at 11, says it "remains materially undervalued." He notes New Century has increased its share of the subprime mortgage loan market, where most borrowers don't satisfy credit standards conventional lenders require. That is partly why its p-e is low. New Century originates loans through its 7,200 brokers and 64 branches in 26 states. Its growth "is sustainable" says Steiner, even if rates tick up: Its customers aren't so sensitive to interest rates.

WHY PROS HAVE A NOSE FOR NASTECH

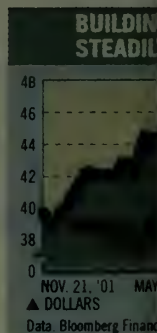
Some investment managers have been loading up on Natestech Pharmaceutical (NSTK), trading at 15, for their own accounts—but not for clients. Not yet, anyway. The reason: It looks too speculative. Yet the pros like what they see in Natestech, which has developed an intranasal drug-delivery technology. More important, Natestech has completed Phase II clinical trials for its "intranasal apomorphine" for treating sexual dysfunction in both men and women. In-



tranasal delivery, in spray form, "materially lessens the onset of action, compared with injectable delivery," says Louis Webb of RBC Markets, a unit of Royal Bank of Canada that has provided banking to Natestech in the months. Webb and RBC don't own shares. Drugs enter the bloodstream through tissue nose, avoiding metabolism, which can alter activity and produce side effects. Morphine is made into apomorphine, but the latter isn't addictive, says Webb. In February, 2002, Pharmacia signed a pact with Natestech to help make and market intranasal apomorphine once the Food & Drug Administration gives its O.K. Natestech will give Pharmacia \$54 million in milestone payments and equity investments, plus a 15% sales-based royalty. Pharmacia has its own injectable sexual-dysfunction product, Caverject. But it has been eclipsed by Pfizer's Viagra. Natestech holds 25 patents for its product in the U.S. and 75 from other countries. Intranasal apomorphine, says Webb, gives Pharmacia an effective noninvasive treatment for sexual dysfunction with "potentially a superior safety profile." He sees Natestech in the black by 2003, at \$1.4 million, or 15¢ a share, on sales of \$19.2 million. His 12-month stock price target: 30.

VORNADO: A SHOPPING TRIP TO ALEXANDER

Vornado Realty Trust (VNO) which owns and manages various office, retail, and industrial properties, has become more popular of late. So argue some value investors, Vornado might buy the 67% of Alexander's it doesn't already own. Alexander's owns several properties in Greater New York. But the one Vornado covets, says Peter Doyle of Kinetics Funds, is the 1.4 million-sq.-ft. property at 111 West Street and Lexington Avenue in Manhattan. Construction of a multi-use tower edifice there is under way. Alexander's, whose CEO Steve Roth is also the CEO at Vornado, has obtained a \$630 million loan commitment from a German bank. Bloomberg LP, the media-and-financial-data company owned by Mayor Michael Bloomberg, has agreed to lease 700,000 sq. ft. for 25 years. Doyle figures that in five years the property will produce \$115 million annually from rents. Vornado purchases Alexander's even at the current market cap of \$335 million, "it would still add tremendous value to Vornado," says Doyle. Vornado owns shares. He says Vornado, now 40¢ a share, doubled in a year. Vornado didn't return a



BusinessWeek online

Read Gene Marcial's Inside Wall Street Online column afternoons at www.businessweek.com/today.htm. And Fridays at 1:40 p.m. EST on CNNfn's *The Money Line*

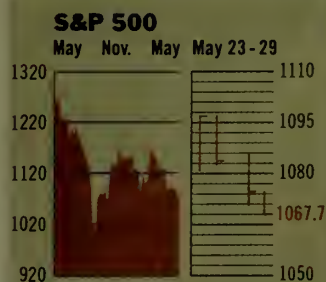
η



Efficiency / *symp: η*

When we built the first nationwide all-digital wireless network, we knew it needed to be a total mobile computing platform. So we invested in plenty of spectrum (this was back when it didn't cost so much) behind a single PCS digital technology sure to take us into the future — CDMA. And we made certain our wireless network integrated with the Tier 1 IP backbone that carries 1/4 of the world's Internet traffic. (Fortunately, we built that too.) Today all this gives our customers advantage. Just one example: seamless integration with their existing network and the latest wireless data capabilities, like email, quotes, sales force apps, and virtually everything the Web has to offer. In other words, the ability to run all their data applications anywhere on our network — real-time, anytime. How's that for efficiency? Don't waste a minute, visit sprint.com/fineprint

Stocks



COMMENTARY

Investor worries about the strength of the U.S. economy and the outlook for profits helped drag down stocks for the week ending May 29. Hit particularly hard was the technology sector, where Intel, the bellwether chipmaker, lost 7.8% in four trading sessions. For the week, the S&P 500, the Dow Jones Industrials, and the Nasdaq lost 1.7%, 2.3%, and 2.9%, respectively.

Data: Bloomberg Financial Markets
Bridge Information Systems, Inc.

U.S. MARKETS

	May 29	Week	Year to date	Last 12 months
S&P 500	1067.7	-1.7	-7.0	-15.8
Dow Jones Industrials	9923.0	-2.3	-1.0	-10.1
Nasdaq Composite	1624.4	-2.9	-16.7	-25.3
S&P MidCap 400	527.7	-0.7	3.8	0.4
S&P SmallCap 600	243.9	-1.2	5.0	7.0
Wilshire 5000	10,110.6	-1.5	-5.6	-13.8

SECTORS

	May 29	Week	Year to date	Last 12 months
BusinessWeek 50*	664.7	-2.0	-8.9	-24.7
BusinessWeek Info Tech 100**	335.4	-3.4	-20.0	-32.5
S&P/BARRA Growth	534.5	-2.4	-10.1	-14.9
S&P/BARRA Value	530.2	-1.1	-4.0	-17.1
S&P Energy	219.9	-0.7	4.0	-10.7
S&P Financials	354.6	-0.9	-0.2	-8.0
S&P REIT	101.1	3.2	8.2	12.2
S&P Transportation	198.3	0.7	0.7	-5.5
S&P Utilities	135.0	-3.0	-7.5	-32.9
GSTI Internet	83.1	-0.6	-20.8	-41.3
PSE Technology	583.0	-2.7	-15.2	-23.9

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Internet Software	16.7	68.4
Forest Products	13.0	56.0
Steel	11.8	51.4
Networking Equipment	10.8	41.2
Health-Care Supplies	10.3	37.4

EQUITY FUND CATEGORIES

4-week total return %	52-week total return %
Leaders	Leaders
Precious Metals 24.5	Precious Metals 86.5
Japan 6.5	Real Estate 17.2
Diversified Pacific/Asia 3.7	Small-cap Value 10.8
Foreign 1.6	Diversified Emerging Mkts. 7.8
Laggards	Laggards
Latin America -4.1	Communications -40.3
Technology -3.8	Technology -36.8
Small-cap Growth -3.5	Utilities -22.5
Health -2.9	Large-cap Growth -20.9

EQUITY FUNDS

4-week total return %	52-week total return %
Leaders	Leaders
U.S. Glob.Wld. Prec. Minis. 39.1	U.S. Glob.Wld. Prec. Minis. 125.9
U.S. Global Investors Gold 33.5	First Eagle SoGen Gold 121.7
AXP Precious Metals A 28.3	U.S. Global Investors Gold 117.1
ING Precious Metals A 27.5	Van Eck Intl. Invs. Gold A 115.1
Laggards	Laggards
Reg. Opport. Oh.-Ind.-Ky. B -18.9	Black Oak Emerging Tech. -65.6
Amerindo Hlth. & Biotech. D -13.5	ProFunds UltraOTC Inv. -65.1
Black Oak Emerging Tech. -12.7	Reg. Opport. Oh.-Ind.-Ky. B -63.1
Frontier Equity -11.9	Van Wagoner Post Venture -62.2

Data: Standard & Poor's

GLOBAL MARKETS

	May 29	Week
S&P Euro Plus (U.S. Dollar)	1067.2	0.5
London (FT-SE 100)	5083.0	-1.3
Paris (CAC 40)	4334.9	0.2
Frankfurt (DAX)	4881.8	-0.8
Tokyo (NIKKEI 225)	11,853.0	-0.9
Hong Kong (Hang Seng)	11,430.7	-3.1
Toronto (TSE 300)	7611.9	-0.3
Mexico City (IPC)	7130.7	-3.4

FUNDAMENTALS

	May 28	Week
S&P 500 Dividend Yield	1.47%	
S&P 500 P/E Ratio (Trailing 12 mos.)	43.9	
S&P 500 P/E Ratio (Next 12 mos.)*	19.2	
First Call Earnings Revision*	0.11%	

*First Call Corp.

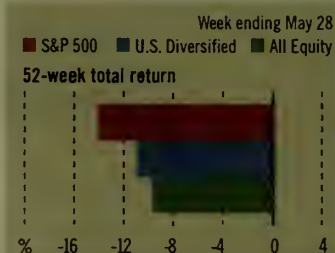
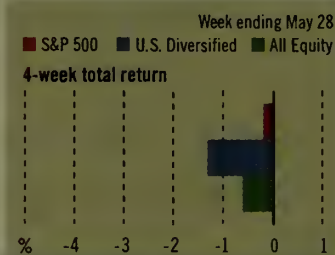
TECHNICAL INDICATORS

	May 28	Week
S&P 500 200-day average	1117.3	11.9
Stocks above 200-day average	69.0%	
Options: Put/call ratio	0.77	
Insiders: Vickers NYSE Sell/buy ratio	4.18	

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Multi-Utilities	-16.9	Multi-Utilities
Gas Utilities	-13.6	Computer Stge
Computer Stge. & Perphs.	-13.2	Telecomms. Eq
Constr. & Engineering	-10.9	Wireless Service
Commercial Printing	-9.7	Instrumentation

Mutual Funds



Data: Standard & Poor's

Interest Rates

KEY RATES

	May 29	Week
MONEY MARKET FUNDS	1.52%	1.5%
90-DAY TREASURY BILLS	1.74	1.7%
2-YEAR TREASURY NOTES	3.16	3.1%
10-YEAR TREASURY NOTES	5.07	5.1%
30-YEAR TREASURY BONDS	5.63	5.6%
30-YEAR FIXED MORTGAGE†	6.76	6.7%

†BancQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENT

Taxable equivalent yields on AAA-rated, tax-exempt bonds, assuming a 30% federal tax rate.

	10-yr. bond
GENERAL OBLIGATIONS	4.39%
TAXABLE EQUIVALENT	6.27
INSURED REVENUE BONDS	4.42
TAXABLE EQUIVALENT	6.31

THE WEEK AHEAD

CONSTRUCTION SPENDING Monday, June 3, 10 a.m. EDT ► Building outlays are forecast to have inched up 0.1% in April, after a 0.8% decline during March. That's according to the median forecast of economists surveyed by Standard & Poor's MMS, a unit of The McGraw-Hill Companies. Commercial construction remains a drag on overall spending, while residential building continues to grow.

PURCHASING MANAGERS' INDEX Monday, June 3, 10 a.m. EDT ► The Institute for Supply

Management's May industrial-activity index was most likely virtually unchanged at 54%, from 53.9% in April.

EMPLOYMENT Friday, June 7, 8:30 a.m. EDT ► Nonfarm payrolls in May probably grew by 68,000, after adding 48,000 jobs in April. Factory payrolls are forecast to have fallen by another 10,000 jobs. The unemployment rate most likely held at 6%, and the average workweek probably inched back to 34.2 hours, after slipping to 34.1 hours during April. While em-

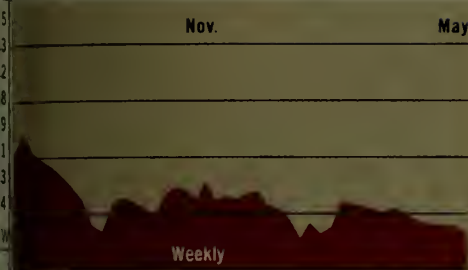
ployers hesitate to add full-time temporary jobs are rising strong

INSTALLMENT CREDIT Friday, June 7, 8:30 a.m. EDT ► Consumers probably piled another \$5.4 billion of new debt during March, consumer debt grew \$4.6 billion. In the first quarter, credit rose \$18.9 billion. debt, made up mostly of credit rose at a sluggish pace, but strong sales pushed nonrevolving credit up \$15.5 billion during the quarter.

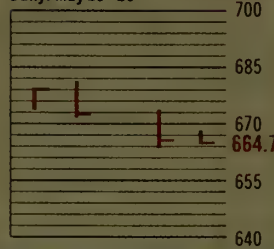
THE
BUSINESSWEEK

50

BusinessWeek Fifty



Daily, May 23 - 29



ough week for the BW 50, which declined 2.0%. KLA-Tencor, which makes chip-monitoring equip-
as investors fled semiconductor stocks. Tyco International fell 8.6% on news that Lehman Broth-
wn its bid for its finance arm, CIT. On the positive side, WellPoint Health Networks climbed 7.0%
commendation, while Calpine bucked the trend among energy providers, rising 5.0%.

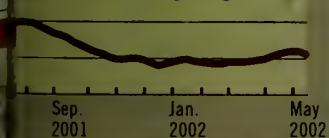
COMPANY PERFORMANCE

Company	% change		Rank	Company	% change	
	Week	Since 3/1/02			Week	Since 3/1/02
Johnson	-1.0	0.8	26	Tenet Healthcare	3.4	26.4
ic	-1.4	2.0	27	Household International	-0.1	2.5
	-2.3	-14.3	28	WellPoint Health Networks	7.0	19.8
	-0.5	4.0	29	Washington Mutual	-0.4	15.1
is	1.7	6.4	30	Duke Energy	-4.3	-5.1
	-9.3	-8.5	31	Kohl's	-3.9	7.9
	-1.1	0.8	32	Bed Bath & Beyond	-0.3	3.3
	2.3	6.2	33	Cardinal Health	-1.3	0.9
	-2.3	1.6	34	Centex	1.6	-8.5
seBergen	1.3	16.4	35	American Electric Power	-2.4	0.3
th Group	4.1	24.0	36	Golden West Financial	-0.2	8.6
	-0.6	9.0	37	Stryker	3.0	-9.9
	-7.5	-18.1	38	Harley-Davidson	-0.6	3.9
tores	-4.0	-13.2	39	PepsiCo	-1.4	0.9
	-7.8	-66.8	40	Merck	-0.7	-6.8
amics	-3.1	8.4	41	Apache	-3.5	3.6
roleum	-3.3	-1.0	42	Amerada Hess	-1.6	19.6
oratories	1.7	-4.9	43	KB Home	2.6	17.7
)	0.0	-9.0	44	First Data	-2.2	-3.3
	5.0	33.6	45	Tyco International	-8.6	-27.4
Petroleum	0.1	12.4	46	International Game Technology	1.1	-8.7
	-2.3	-8.0	47	Capital One Financial	-0.2	26.3
s	5.0	4.9	48	Electronic Data Systems	-0.7	-9.6
il	-2.1	-0.7	49	Nabors Industries	2.3	25.0
	-3.3	-3.9	50	Xcel Energy	-2.6	-6.9

Production Index

Change from last week: -0.4%
Change from last year: -7.0%

L OUTPUT May 18=161.2 1992=100
Index is a 4-week moving average



index declined for a second straight
ulation of the four-week moving aver-
opped to 160.6, from 161.2. On a sea-
basis, declines were posted in the en-
ponents: coal, crude-oil refining, and
partly the result of unseasonably cool
eight traffic also moved down. Autos
wed the biggest increases, with steel
uction rising for the week as well.

of the index components is at www.business-week.com
Production index Copyright 2002 by The McGraw-Hill

Online Resources

BW 50 Track the index and the com-
panies in it all day long. Plus: our
exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time
market coverage and investment
tools in partnership with Standard
& Poor's.

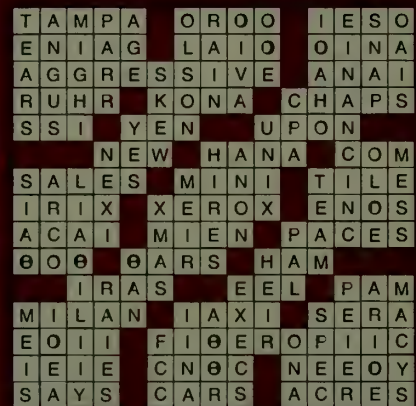
MUTUAL FUNDS Search for funds, view
BW ratings, and read Q&A's with
fund managers.

COLUMNS Hot stocks, takeover plays,
and the latest strategies for manag-
ing your money.

BusinessWeek online

For more investment data and the
components of the production index, visit
www.businessweek.com.

Mixing Business with Pleasure by Lincoln



Answers from this week's
puzzle in BusinessWeek.



LINCOLN

Lincoln.com

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

ABC (DIS) 142
Accenture (ACN) 152
Adelphia Communications (ADLAE) 42, 50
Aetna (AET) 124, 130
Air Methods (AJRM) 104
Alaska Air (ALK) 124
Alliance Capital Management (AC) 150
Alltel (AT) 46
American Express (AXP) 150
American Funds 150
Amgen (AMGN) 94
AOL Time Warner (AOL) 16, 73, 122, 130
Apollo Group (APOL) 94
Apple Computer (AAPL) 23
Arthur Andersen 34, 42
AstraZeneca (AZN) 48
AT&T (T) 34, 46
Awad Asset Management 154

B

Barrick Gold (ABX) 40
Bayerische HypoVereinsbank 154
Bear Stearns (BSC) 12, 114, 122, 130
BellSouth (BLS) 72
Bellwave 54
Best Buy (BBY) 98
Bethlehem Steel (BS) 34
Bidz.com 118
BindView Development (BVEW) 126
Bloomberg 154
Blue Cross Blue Shield 72
Bluetooth 23
BMW 50
Boeing (BA) 16
Bridgeway Funds 98
Bright Horizons Family Solutions (BFAM) 101
Brio 94
Buffalo Mutual Funds 94

C

Capital Economics 132
Career Education (CECO) 94
Caterpillar (CAT) 130
CBS (VIA) 142
Chapman Capital 126
Charles Schwab (SCH) 134
ChevronTexaco (CVX) 50
Chico's FAS (CHS) 94
Cinar 126

Cisco Systems (CSCO) 50, 94, 101, 114
Clear Channel Communications (CCU) 122
CMS Energy (CMS) 42, 50
Columbia Sportswear (COLM) 100
Command Systems 126
Compaq Computer (HPQ) 23, 152
Computer Associates (CA) 42, 124
Comsat 124
Conoco (COC) 34
Copart Salvage Auto Auctions (CPRT) 102
Corinthian Colleges (COCO) 94
Country Wide Home Loans 46
Credit Suisse First Boston 42, 44
Cree Research 73

D

DaimlerChrysler (DCX) 78
Deepflight.com 14
Dell Computer (DELL) 94
Deloitte & Touche 42
Deutsche Bank (DB) 114
Devry (DV) 94
Digitalway 54
DirecTV (GMH) 142
Donna Karan (LVMHY) 94
Dreman Value Management 124
Dreyfus 150
DuPont (DP) 34
Dynege (DYN) 42, 50

E

eBags 118
EchoStar Communications (DISH) 142
Economy.com 94
Edison Schools (EDSN) 42
Edward Jones 134
Enron (ENRNQ) 16, 34, 42, 124, 128, 130, 134, 160
EPIC/MRA 72
Ericsson (ERICY) 23
Ernst & Young 42, 152
Eurotechnology Japan 73

F

Fidelity Investments 101, 150
FleetBoston Financial (FBF) 12
Florida Marlins 64

Footstar (FTS) 124
Ford (F) 72, 78, 80
Franklin Mutual Advisers (BEN) 124
Fred's (FRED) 94
Fujitsu 54

G

Gemstar-TV Guide International (GMST) 130
General Electric (GE) 16
General Motors (GM) 72, 78, 130
Gifford Securities 154
Global Crossing 42
Goldman Sachs (GS) 16, 44, 126
Goldschmidt & Howland 132
Google.com 118
Great Lakes Chemical (GLK) 124
Gucci (GUC) 54
Guild.com 118

H

Halliburton (HAL) 42
Hamptons International 132
Harris Investment Management 40
Heartland Value 124
Hermès 54
Hewlett-Packard (HPQ) 23, 152
Highfields Capital Management 124
Hitachi (HIT) 54, 73, 142
Home Box Office (AOL) 142
HomeGoods (TJX) 94
Homestore.com (HOMS) 42
Honda (HMC) 78
Hotwire.com 118
HSBC (HBC) 12
Hyundai 54

I

IBM (IBM) 23, 50
iCapital Markets 42
ICG Commerce 118
ICN Pharmaceuticals (ICN) 124
ImClone (IMCL) 48
Immunex (IMNX) 94
InfoSpace (INSP) 134
Institutional Shareholders Services 124
Intel (INTC) 77

J

Janus Funds 150
Jeffries (JEF) 124

J.P. Morgan Securities (JPM) 40

K

Kanon Boch Carré 150
Kenwood 147
Kinetics Mutual Funds 154
KPMG 42, 152

L

Legg Mason Value Trust (LM) 124
Lehman Brothers (LEH) 50, 114
LG 54
Lockheed Martin (LMT) 124
Lucent Technologies (LU) 42, 114, 134

M

Matsushita (MC) 73, 142
MBNA (KRB) 46
McDonald's (MCD) 50
McDonnell Douglas (BA) 16
McGraw-Hill (MHP) 34, 156
Merrill Lynch (MER) 14, 16, 42, 44, 94, 124, 134
Microsoft (MSFT) 50, 101
Miramax Films (DIS) 54
Mitsubishi 142
mm02 114
Montreal Expos 64
Moody's Investors Service (MCO) 50, 114
Morgan Stanley Dean Witter (MWD) 16, 124, 134, 152
Morningstar 14
MTV (VIA) 54
Munder Capital Management 104

N

Nastech Pharmaceutical (NSTK) 154
Nationwide Building Society 132
Nautilus (NLS) 94
Navistar International (NAV) 124
NBC (GE) 142
NCSoft 54
Netflix (NFLX) 118
Networks Associates (NETA) 42
New Century Financial (NCEN) 154
Nichia 73
Nissan (NSANY) 78
Nokia (NOK) 54
Nortel Networks NT 114
North Face 100
Northern Trust NTRS 114

O

Oracle (ORCL) 54, 94
Overture Services 118

P

Palm (PALM) 23
Patagonia 100
PayPal (PYPL) 118
PEC Solutions (PECS) 94
Pets.com (PETM) 94, 134
P.F. Chang's China Bistro (PFCB)
Pfizer (PFE) 154
Pharmacia (PHA) 154
Phillips Electronics (PHG) 142
Pico Communications 23
PIMCO Total Return 14
Pioneer 73, 147
Preview Systems 126
Priceline.com (PCLN) 118
PricewaterhouseCoopers 42, 152
Procter & Gamble (PG) 60
Providence Capital 124
Prudential Securities (PRU) 44

Q

QLogic (QLGC) 94
Qwest Communications International (Q) 42

R

RadioShack (RSH) 142
Ragen MacKenzie 100
RBC Capital Markets 154
RCA (TMS) 147
Reader's Digest (RDA) 124
Reliant Energy (REI) 50
Reliant Resources (RRI) 42
Renaissance Capital 60
Riddell (RDL) 77
Robertson Stephens (FBF) 12
Royal Philips Electronics (PHG) 73

S

Salem Communications (SALN) 122
Salesforce.com 118
Salomon Smith Barney (C) 44
Samsung 54
Samsung Electronics 54
Sanford C. Bernstein (AC) 48
SBC Communications SBC 114
Sears (S) 46
Showtime (VIA) 142

Singing Machine 98

Sony (SNE) 23, 54, 142, 147
Sprint PCS (PCS) 1
Standard & Poor's 34, 94, 114, 156
Sun Microsystems 54
SYM 54
Synaptics (SYNA)

T

Tampa Bay Devil F
Target (TGT) 98
3Com (COMS) 23
TCL 54
TDK (TDK) 23
TechTarget 118
Terk Technologies
Thomson Multimedia 142
Tiffany (TIF) 128
TiVo (TIVO) 142
Toshiba 23, 54, 73
Toyota (TM) 78, 10
Toys 'R' Us (TOY) 9
Trump Hotels 42
Tuesday Morning
Tyco International 50

U

UAL (UAL) 130
Unified Energy Sys
U.S. Bancorp Piper (UBS) 114
UTStarcom (UTSI)

V

Vanguard 14, 124
Visteon (VC) 80
VoiceStream Wirel
Volvo (F) 54
Vornado Realty Tru 154

W

Walt Disney (DIS) 5
Waste Management 42
Wedgwood 94
Wells Fargo (WFC)
William Blair 94
WorldCom (WCOR)

X

Xerox (XRX) 42, 50

Z

Zacks Investment 134
Zurich Financial Se

BusinessWeek (ISSN 0007-7135) published weekly except for one week in January August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. rate \$54.95/year. Canada: CDN \$69/year. Periodicals postage paid at New York, N.Y., and at additional offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales No. 246484. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO 80503.

A PERSPECTIVE ON VALUE INVESTING

ONCE AGAIN, THE TORTOISE BEATS THE HARE.



Mutual Series' activist approach has provided competitive performance.

Slow and steady wins the race. For example, take a close look at the performance of our Mutual Financial Services Fund. What's the secret of its competitive performance through market upswings and downturns? Consistently following our time-tested, value-driven

scrutiny based on their own primary research. Finally, they stand ready to get actively involved in the companies they invest in. The fact is, they're prepared to do whatever it takes to actively increase long-term shareholder value.

To gain further perspective on

Mutual Financial Services Fund Class A shares | Average Annual Total Returns 3/31/02*

SINCE INCEPTION 8/19/97

17.23%

THREE YEAR

16.28%

ONE YEAR

11.87%

approach to investing.

First, our analysts dig deep to find undervalued securities others have overlooked. Next they put potential investments under intense

choosing a Mutual Series fund for your portfolio, contact your investment representative, call us directly at 1-800-FRANKLIN Ext. P560 or visit our website at franklintempleton.com.



FRANKLIN TEMPLETON
INVESTMENTS

< GAIN FROM OUR PERSPECTIVE™ >

Franklin Templeton Distributors, Inc., One Franklin Parkway, San Mateo, CA 94403 Call for a free prospectus containing more complete fund information, including sales charges, expenses and risks. Please read it carefully before you invest or send money.

Investing in single-industry fund involves special risks, including greater sensitivity to economic, political or regulatory developments. Investing in companies involved in mergers, reorganizations and liquidations involves special risks. Foreign securities risks include currency fluctuations and political uncertainty.

*Performance figures shown pertain to Class A shares of the fund. The fund offers other share classes, which are subject to different fees and expenses, which will affect their performance. Please see the prospectus for more information. Average annual total returns represent the average annual increase in value of an investment over the indicated periods ended 3/31/02, including the 5.75% maximum initial sales charge, and assume reinvestment of dividends and capital gains at net value. Past expense reductions by the fund's manager increased the fund's total returns. Investment return and principal value will fluctuate so that your shares, when redeemed, may be worth more or less than their original cost. Past performance does not guarantee future results. For more current performance information, please call Franklin Templeton Investments at 1-800-342-5236.

BW6/02

WANTED: A BOLD BUDGET DEBATE

It's time for Washington and the nation to begin an honest discussion about the budget and taxes. Call it a guns-or-butter debate for the 21st century. The truth is that most of the political, economic, and financial assumptions made by policymakers in 2000 are in flux. The tech bubble, September 11, and Enronitis are altering the course of future economic growth, government policy, and corporate profitability in ways that are just unfolding. A just-in-time open economy is becoming a just-in-case security economy. Pretending that nothing has changed is foolhardy. And partisan finger-pointing as November elections approach is shortsighted. Both Democrats and Republicans in Congress need to open a serious debate about what kind of policy best suits America today and for the rest of the decade.

There are things we know and things we don't. The budget has moved from a \$127 billion surplus in fiscal year 2001 to at least a \$100 billion deficit for 2002. Democrats are blaming President Bush's \$1.7 trillion 10-year income tax cut for the red ink. In this, they are dead wrong. Very little of the Bush tax cut has been implemented. The current budget deficit is due mostly to lower tax revenues caused by the recession and the tax rebate plus higher spending for defense, Medicare, New York, unemployment insurance, and pork.

The problem is that many of the "temporary" hits to the budget may be far more permanent than recognized. For example, the largest decline in tax revenues is from taxes paid on capital gains, stock options, and bonuses. Indeed, much of the budget surplus of the late 1990s was financed by such levies. It is questionable whether any future surplus can be paid for in that way. Expensing stock options is a high priority for reformers cleaning up the accounting mess, and corporations will probably curtail options once that happens. Furthermore, prospects for the stock market may not be as

robust in the years ahead as they were in the '90s. The accounting tricks is over. The tech binge is unlikely to be repeated. And the cost of homeland security may affect the bottom line. During the high-risk Cold War years, price-earnings ratios averaged only 15, half today's p-e. Who's to say we won't return to that level? It's terribly unclear at this point.

So is the cost of national security. Defense spending is scheduled to rise by 25% over five years. There is a good chance it will go up by much more. Securing the homeland while allowing people and goods to move quickly through them will cost many billions of dollars that are not yet in the budget. Securing transportation systems and nuclear and chemical plants will cost further billions.

Politicians in Washington are blindly forging ahead with assumptions that are weak and policies that are out of touch. Voting to make the repeal of the \$138 billion inheritance tax permanent, as the House is preparing to do, is irresponsible when the budget surplus may be in doubt. Passing the giant farm bill is similarly ill-advised.

It may be that, in the end, rising productivity will generate a budget surplus that allows America to pay for both guns and butter. But the risk is that by not making budget choices now, the country will sink back into a 1970s-style period of stagflation with low growth, high interest rates, and declining productivity. Bad fiscal policy in the '70s undermined the productivity gains of the '60s. The same could happen again, undercutting the gains of the '90s. Going to the moon already portends an increase in inflation.

In this time of great uncertainty, it is incumbent on legislators to be pragmatic and flexible, not ideological and partisan. A budget debate would be a good way to confront the choices ahead. The world is changing, and Washington must change, too.

TIME FOR CEOs TO SPEAK UP

We find ourselves in the midst of the most serious business crisis the country has seen in decades. Hardly a day goes by without some new revelation about yet another company being investigated by one arm of government or another (page 42). What started out as a scandal focused on Enron has mushroomed into an ethics epidemic enveloping some of America's blue-chip corporations. It is affecting major industries—telecom, accounting, software, Wall Street, and energy. And it shows no signs of ending anytime soon.

The stakes are enormous. The U.S. economic system depends on the accuracy of information. To make a high-growth, high-risk equity culture work, people must have honest financial data available to inform their decisions. What's at stake today is nothing less than popular trust in the markets. This trust must be restored.

Given the moment, it is disheartening to see so few CEOs speaking out for reform. Of course, no CEO wants to be holier than thou. Yet even the voices of Corporate America, the Business Roundtable and the Chamber of Commerce, have been largely reticent. A few business leaders, such as Warren E. Buffett and Paul A. Volcker, have been outspoken. But generally speaking, the executive suite has been silent.

There are plenty of talented, articulate CEOs who run their companies well and are compensated within reason. It is their help at this critical time if they would take the public's side and urge reform in accounting, restraint in executive compensation, honesty in financial analysis, and integrity in corporate governance. The problem is increasingly urgent. Those who have embraced reform need to say so. Those who have not need to do so.

WHAT POWERS YOUR BUSINESS?

80 years of continuous training has helped make our tools the choice of professionals. Now, e-learning complements our classroom learning by making training more immediate for distant employees, distributors, and service agents.

ACHIEVING RESULTS FASTER:

- 10** days for LMS implementation.
- 40** hours of mandated yearly employee training, tracked and integrated with HR performance data.
- 1** Learning Management System bringing it all together.

TODAY:

2,000 employees throughout North America are accelerating learning with the THINQ LMS. Tomorrow, thousands of customers, distributors and authorized repair stations will join them.

What if you could be ready for change? What if you could achieve results—faster? What if you could reduce your organizational risk through learning?

You can, with THINQ. THINQ's learning management software powers the learning that powers the business of more large organizations than any other.

Visit <http://ThoughtLeaders.THINQ.com> to find out how Katrina and her team stay ready for change, achieve results faster, and reduce risks.

THINQ

LEARNING THAT POWERS BUSINESS

1.800.869.9461, press 3

"Training is part of our mission statement. It makes the mission possible."

Katrina Schwegel

Organizational Development Manager

Milwaukee Electric Tool Corporation

IBM PCs use genuine Microsoft® Windows®
www.microsoft.com/piracy/howtotell

spending some time in a customer's shop

Marcia Kilgore, *Founder of Bliss Spas, New York &*

Integrated dual antennae on select models for improved signal strength! Software for easier connectivity to the network when you're on the road. **Wireless Innovation.** It's just one of the reasons why some of the world's most successful people choose ThinkPad® notebook computers. Select models feature a Mobile Intel® Pentium® 4 Processor-M for outstanding performance and mobility.

Call **1.877.thinkpad** or visit **ibm.com/thinkpad/think**



Business Week

2002

www.businessweek.com

**CORPORATE
CUTBACKS**

**REFORM
BILLED IN
WASHINGTON
STATE AGs
GOING TOO FAR?**

**TRAINING ON
FINANCES**

**DRILL
DOWN
O'NEAL'S
FIGHTING WOES**

**TESTING
IT PLAYS
REAL ESTATE**

BALLMER'S MICROSOFT

EXCLUSIVE How CEO Steve Ballmer
is remaking the company
that Bill Gates built

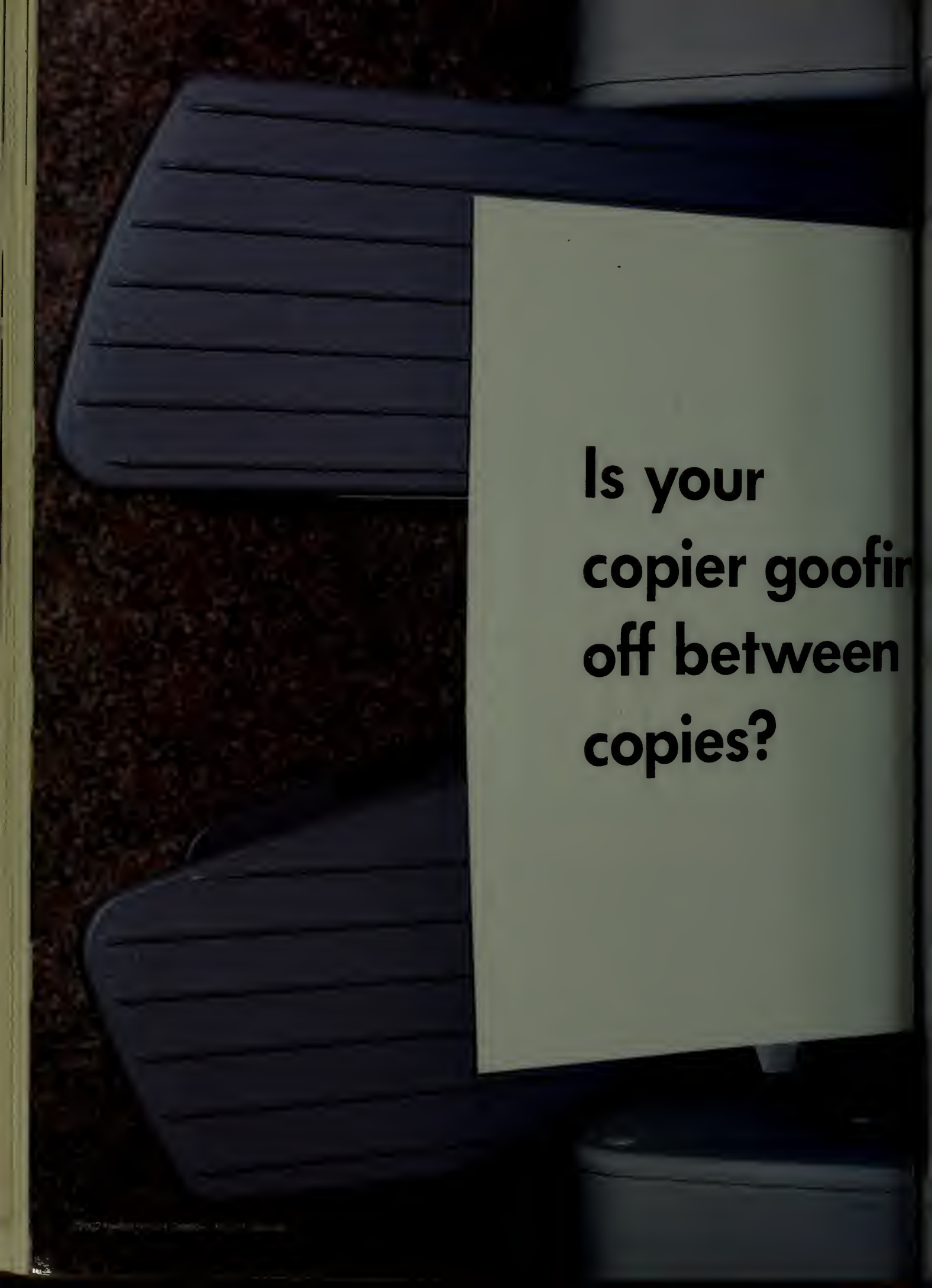
PAGE 66

*****CAR-RT LDT**C030
LBRLP000097 1#302
BURLINGAME

BURLINGAME PUBLIC
80 PRIMROSE RD
BURLINGAME CA

JUN - 6 2002

LIBRARY

A dark-colored office chair is shown from a side-rear perspective. The backrest features a large, white rectangular panel. The chair's seat and backrest have horizontal ribbed details. The background is a dark, textured surface.

**Is your
copier goofing
off between
copies?**



It's time to give your copier a performance review. Will it print, color scan, fax and copy? Does it work well with other machines on your network? Can you count on it? If the answer is no, you need to find a more qualified replacement: an HP Multifunction Printer. By combining four machines in one, an MFP will allow you to do more with less. It can even scan documents and e-mail them in one step if you have an Internet connection. For the MFP's credentials, call 888-355-9836 and mention source code 12142 or visit www.hp.com/go/mfp99. These days, a copier that only copies isn't working hard enough for your business.



hp LaserJet 9000 mfp



Is your broker's idea of
an investment plan a never-ending
series of hot stock tips?

There's never been a better time for Schwab Private Client.TM

With a Schwab Private Client Consultant, you get advice based on research and facts, not hype. They'll also take the time to study your financial needs so you can get buy and sell recommendations based on what's good for your portfolio, not your broker's wallet.

With Schwab Private Client, you'll develop a one-on-one brokerage relationship with an experienced Private Client Consultant who'll listen to you and your goals and help you develop and implement an investment plan. They'll also provide you with our Schwab Equity Ratings,SM a simple way to help you decide what to sell as well as what to buy.

Your personal Private Client Consultant will help you stay on top of your portfolio. Assist you in keeping updated on the status of your investments. And help you stay on track over the long term, all for a simple fee.*

In other words, you'll have someone who understands the market and is on your side. Someone you can trust. And, of course, their advice is based on the principles of Schwab.



JAMIE WALTER
SCHWAB PRIVATE CLIENT CONSULTANT

THE PRINCIPLE OF THE INDIVIDUAL INVESTOR

From day one, the individual investor has been at the center of what we do. Every investor is important to us. We're not focused on investment banking. We represent you, the individual investor.

THE PRINCIPLE OF ADVICE NOT DRIVEN BY COMMISSION

Individual broker commissions can undermine relationships. That may bias the advice

you're getting. Our Investment Consultants' compensation is based on their service to you and assets at Schwab, not commissions. It always has been. And always will be

THE PRINCIPLE OF OBJECTIVITY

At Schwab, we're not focused on investment banking. For example, we make IPOs available but we don't receive any compensation for their distribution. To us, it's a potential conflict of interest. We always strive to avoid conflicts of interest in everything we do. This is at the heart of our values.



To find out how a one-on-one relationship with a Schwab Private Client Consultant may be right for you, call 1-866-804-4859, and you can also receive our complimentary brochure.

charles SCHWAB

Call	1-866-804-4859	Click	schwab.com	Visit	400 locations nationwide
------	----------------	-------	--	-------	--------------------------

Schwab Private Client is a service of Charles Schwab & Co., Inc. Member SIPC/NYSE. Accounts are nondiscretionary brokerage accounts, and advice about your securities portfolio is part of our brokerage service. *Fees for additional services may apply.
©2002 Charles Schwab & Co., Inc. All rights reserved. (0502-8403). ADS23344SPD.

COVER STORY

BALLMER'S MICROSOFT

The new boss isn't just following in Bill's footsteps page 60



BusinessWeek

JUNE 17, 2002

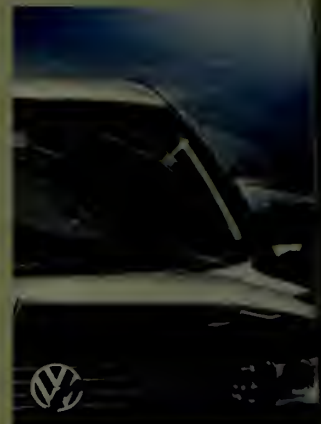
BATTLE ROYAL

State attorneys general vs. Corporate America page 62



CARLY'S QUEST

Fiorina has to find the promised synergies at HP-Compaq page 76



CAR HAPPY

Chinese consumers hitting the showroom page 44

Cover Story

66 BALLMER'S MICROSOFT

A new era has dawned at the powerhouse Bill Gates built. The world's richest and most feared software giant is being reconstructed by CEO Steve Ballmer. After more than two years of trial and error, Ballmer has come up with his own prescription for making Microsoft even more successful in its second quarter-century than it was in its first. And after a somewhat rocky transition, Gates doesn't seem to mind

75 BILL GATES ON SWITCHING JOBS

With Ballmer as CEO, he's free to concentrate on software

News: Analysis & Commentary

26 WHAT REFORM?

Why Washington's resolve to overhaul key elements of American business is weakening—and big investors are worried

28 COMMENTARY: THE SEC

It should be chasing down misleading press releases—not just tightening deadlines for reporting

29 COMMENTARY: THE BOARDROOM

Why the NYSE's proposed corporate-governance reforms are a good idea

30 TYCO ON THE EDGE

After its CEO's departure, can anyone pick up the pieces?

31 QWEST: THE SELL-OFF BEGINS

To save its ailing fiber-optics biz, the telecom giant needs cash

32 A PLAGUE OF SOFTWARE

Too many companies have too much of the stuff on the shelf

34 ORACLE'S HARD SELL

Is the software provider turning off customers?

36 COMMENTARY: FOREIGN AID

Paul and Bono's excellent adventure in Africa

38 IN BUSINESS THIS WEEK

International Business

44 CHINA: AUTOS

A huge market is opening up as consumers start buying cars

44 A CARMAKER NAMED GEELY

Its low prices are a hit with Chinese buyers

46 COMMENTARY: JAPAN

The first-quarter numbers look good, but the recovery is fragile

48 RUSSIA: PRODUCTIVITY

Some industries learn the getting more out of workers

51 INTERNATIONAL OUTLOOK

Hamid Karzai will be hand years to pull Afghanistan t

Economic Analysis

20 ECONOMIC VIEWPOINT: CAN

When every thing is m

22 ECONOMIC TRENDS

Less poverty, New Econon effect; whose gas is in U.S.

23 BUSINESS OUTLOOK

U.S.: There's plenty of goo but investors are ignoring i Mexico: Adiós to the "super

Government

41 WASHINGTON OUTLOOK

Ashcroft's missteps are add

60 STATES: THE RED INK WON'T

Even when the economy co its recovery, they'll be hurt

Sports Business

52 COMMENTARY: SOCCER

Charges are flying against President Sepp Blatter

THE MAN?

His woes at

page 78



LOST CHANCE

All the calls for
corporate reform
spark little
action

page 26



HOME FRONT

Smart plays in
real estate

page 88

DRUG DEALS?

J&J's Weldon may have
to open his wallet

page 58



Management

COMMENTARY: BOARD MEMBERS
Directors collecting extra fees can
hardly claim to be independent

Corporation

SHOPPING SPREE AHEAD
The drug giant has more cash in
hand than blockbusters on deck

Affairs

COMMENTARY: STATE AGs
The regulatory-minded state
attorneys general getting a little
big for their britches?
BEST DEFENSE? AN EX-AG
Why more companies are hiring
former government prosecutors to
fight lawsuits brought by the states

Information Technology

ALDSTROM: TECHNOLOGY & YOU
These days, even the design of
high-end electronics is farmed out
IT'S SHOWTIME
Now, Carly Fiorina & Co. have the
task of figuring out just how
to integrate Compaq

Finance

- 78 MENDING MERRILL**
If he really wants that corner suite,
Stan O'Neal has lots of work ahead
and little time to do it
- 82 GM: THE HIGH COST OF RETIREES**
The auto maker's massive health-
care and pension-fund liabilities
are a drag on earnings
- 83 FIAT IN A FIX**
Having staved off a downgrade, the
company must sell off more assets
- 84 MBNA: MORTAL AFTER ALL**
Year after year, the credit-card
giant defied all naysayers and
produced huge earnings—until now

BusinessWeek Investor

- 88 WILL HOUSING PRICES COOL OFF?**
The past year's double-digit gains
in some big cities can't go on. Some
see the runup losing steam soon
- 90 SECOND HOMES SIZZLE**
A vacation place can be a good
investment as well as a peaceful
retreat. Here's what to look for

- 94 HOW TO LAND A BROKER**
You'll want a real estate agent
who's a real go-getter. Interview
several before you choose
- 96 A REAL ESTATE FUND WITH FOCUS**
BusinessWeek talks with Michael
Winer about the benefits of
investing in REOCs
- 100 THE BARKER PORTFOLIO**
How to protect your portfolio from
oil-price shock
- 103 INSIDE WALL STREET**

Features

- 8 UP FRONT**
- 12 READERS REPORT**
- 16 CORRECTIONS & CLARIFICATIONS**
- 17 BOOKS**
Stiglitz: *Globalization and Its
Discontents*
- 85 DEVELOPMENTS TO WATCH**
Resonant materials; misleading
numbers in medical studies; new
malaria drugs; hospital mixups
- 104 FIGURES OF THE WEEK**
- 106 INDEX TO COMPANIES**
- 108 EDITORIALS**

BusinessWeek online

www.businessweek.com
America Online Keyword: BW

Updated every business day at www.businessweek.com

50

Visit the BusinessWeek 50 area of our site for news, investing tools, and more at www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

VIEW FROM ABOVE:

Daniel Yergin, host of PBS's "The Commanding Heights," on the outlook for globalization after September 11



THE MISSING PIECE:

The long-awaited upturn in capital spending has started, says BW's Kathleen Madigan



TOOLS

YOUR PORTFOLIO:

Check on the health of your investments



STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



MBA SEARCH: Which is the right business school for you and your needs?



INTERACTIVE FORUMS

Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your hand-held! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the June 17, 2002, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/02_24/online.htm



Continental Leaders

BW correspondents and editors have chosen 50 individuals at the forefront of change. These are the managers, policy-makers, innovators, and financiers whose patience and strategic choices have really paid off



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Washington Watch: Former Fed Chairman Paul Volcker discusses Arthur Andersen, the roots of the accounting mess, and Republican "window dressing"



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Tech Knowledge: IT titan IBM is in the right place—and ahead of its peers—as profits shift from hardware to services and software

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Smart Answers: B2Bs were once the toast of tech. Now, only the bravest would launch one

SmallBiz

TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Street Wise: Bob Pittman turned AOL around once. Can he make a successful rescue again?

e.biz

B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

B-School News: With so many people applying to B-schools, many are ending up in admissions purgatory. Here are ways to stand out

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

Online Asia: Nanya and other Taiwanese chipmakers are struggling in the memory-chip business. Infineon may be their savior

BusinessWeek tv

FOR PROGRAM DATES AND TIMES IN YOUR AREA GO TO WWW.BUSINESSWEEKTV.COM

TUNE IN THIS WEEKEND FOR:

Tips for buying a second home

Marketing a house without a broker

HDTV: Ready for prime time?

The flat out clear choice.

WiseView™ at any angle.



Now you can get distortion free viewing 18" to 40" displays with outstanding clear resolution. The choice is clear. The choice is WiseView digital displays by Samsung.

WiseView technology that's ahead of its time. Every TFT-LCD visual display on a cell phone, notebook, monitor, PDA, LCD TV or game with the WiseView

logo has the reliability, clarity and quality that you can expect from Samsung.

WiseView from Samsung. When you're looking for the perfect view, look for the WiseView logo. It's flat out the clear choice.

For more information, visit us at
www.samsungTFTLCD.com.

**wise
view**™

SAMSUNG TFT-LCD



notebook

monitor

PDA phone

TV

SAMSUNG

ELECTRONICS

Samsung and Samsung are registered trademarks of Samsung Electronics Co., Ltd.

Up Front

EDITED BY SHERIDAN PRASSO



VACATION NATION

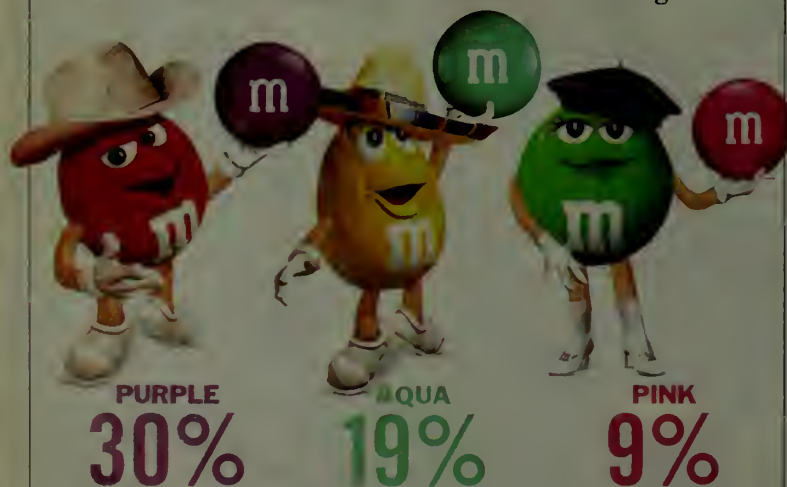
A TOURIST BOARD'S BEST PAL: THE PREZ

DOES THE PRESIDENT'S CHOICE of a vacation spot influence the tourism decisions of Americans? It appears so, according to a May 20-22 Gallup Poll. When asked which state they would like to visit this summer, three times as many people picked Texas as in 1999, during the Clinton era. Texas is now the eighth-favorite state for vacationers, up from near the bottom pre-Bush, Gallup found.

CANDYLAND

AND THE NEXT COLOR WILL BE...

WILL IT BE PURPLE? M&M/MARS HAS BEEN POLLING THE PUBLIC to determine the newest color in the M&M lineup. With a big announcement scheduled for June 19, M&M is mum on how the vote is going, but Nielsen/NetRatings tracked traffic on the M&M Web site for one week and found the following:*



*MORE THAN ONE VOTE ALLOWED. AT LEAST 42% OF VISITORS DID NOT VOTE.

TOP DRAW: Lone Star officials confirm the state is hot. So far this year, 1.5 million people have requested Texas tourism info, nearly reaching last year's record 1.7 million. Of particular interest, in addition to the President's ranch in Crawford, is Waco, home of the Texas Ranger Hall of Fame & Museum. Jeff Moseley, executive director of the Texas Economic Development Dept., reports a surge in international visitors, particularly Germans fascinated by the cowboy image of Bush in European media.

The big loser, according to Gallup: Maine. In 1991, when the first President Bush frequented his Kennebunkport compound, 6% of Americans said they would like to visit. Now it's just 2%. Bill Clinton's native Arkansas consistently polls less than one-half of 1%. Then again, the Clintons don't vacation there, either. *Richard S. Dunham*

TALK SHOW "Stop talking... I'm the director here."

—New York State Supreme Court Justice Ira Gammernan, asking filmmaker Woody Allen to shorten his answers during testimony in his lawsuit against a former producer

HORSE POWER

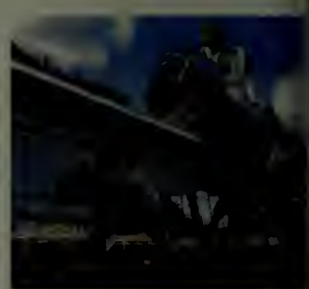
THE REAL STAKES AT BELMONT

THE BELMONT STAKES ON June 8 could be the most lucrative mile and a half in horse-racing history. That's if War Emblem, with victories in the Kentucky Derby and Preakness, becomes the first Triple Crown winner in 24 years—and, with the death of Seattle Slew in May, the only one living.

War Emblem, who in 2000 went unsold for \$20,000 at the Keeneland yearling sale, could be worth \$20 million, calculates racing publication *The Blood-Horse*. His current owner, Saudi Prince Ahmed Salman, who paid \$900,000 in April for a 90% stake, would likely syndicate him, selling 40 shares of \$500,000 apiece. Share owners get part of the stud fees, at \$100,000 a session, horse experts say. War Emblem

could earn \$6 million a year.

War Emblem's emergence as a superhorse has already raised the value of his stud fees. Our Emblem, an 11-year-old whose stud fees had declined from \$10,000 in 1997 to \$4,000 before his three-year-old season, won the Derby. Since then, Our Emblem has sold for



WHAT A STUD: War Emblem

million. Many factors go into the value of a horse, including whether the blood lines produce champions. Even if War Emblem does not win the Belmont, his stud fees could go higher if, down the road, his progeny turn out to be winners, too. *Ronald Green*

THE LIST ROAD RAGE RANKINGS

Drivers in 10 cities were asked to confess how many times in a month they committed aggressive acts (tailgating, speeding, last-minute merging) while on the road. Here, ranked from most aggressive to most polite:



CITY	COMMENT
1. BOSTON	Worst and rudest; 25% admit making obscene gestures
2. WASHINGTON	Speed demons; 70% say they drive 10 mph over the limit
3. MIAMI	Rudeness abounds: 57% tailgate, honk, flash brights
4. DALLAS	Wireless at the wheel; 11% use a laptop or PDA while driving
5. DENVER	Hotheads; 26% admit arguing with car mates, vs. 19% nationally
6. LOS ANGELES	Looking pretty; 15% apply makeup or shave while driving
7. CHICAGO	Distracted; 46% use cell phone while driving, the most of any city surveyed
8. CLEVELAND	Newsounds; 15% read while driving, the highest nationwide
9. DETROIT	Thirsty; 73% drink while driving (not necessarily alcohol)
10. SEATTLE	Safest—and polite, too; only 5% double-park, vs. 47% in Boston

Data: Global Strategy Group

Financial Services • Private Banking • Asset Management • Life and Pensions • Insurance • Investment Banking



INVENTIVE Driven by ideas. Geared to the future. Confident.

Alone, an idea can change perceptions only for a short time. To take hold permanently it needs the right financial backing and long-term support. We specialise in providing both. If you're building for the future, add a little cement to your sand. www.credit-suisse.com

**CREDIT
SUISSE** | GROUP 360° FINANCE™

Up Front

SEIZE THE DAY

JUST WHAT KIND OF RETIREE WILL YOU BE?

THE DEFINITION OF "retire," according to the dictionary, is to withdraw from action or danger. Looks like we'll have to find a new word to describe what people do when they leave a longtime employer or start drawing a pension.

According to a new poll from Harris Interactive, 95% of people age 55 to 64 plan to do at least some work after they, er, retire. That's up from 75% who said the same thing in a *BusinessWeek*/Harris Poll just four years ago.

The latest poll, which was done for AIG SunAmerica, didn't ask people whether they'll be working because they need the money. But they don't expect what they do to be a grind: 81% want to continue to learn, 70% want to try new things, and



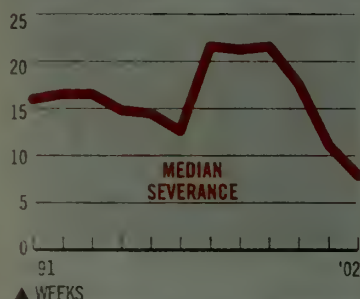
BEACH BUM? He'll toil a bit, too

AS THE DOWNTURN TURNS

THE ECONOMY MAY BE PICKING up, but the outlook is still rather bleak when it comes to layoffs.

Witness the plight of the typical manager, who now gets just eight weeks of severance pay upon being downsized, down from almost 22 weeks at the height of the tech boom in 1999. To make matters worse, it usually takes almost 15 weeks for that same manager to find another job (up from nearly 12 weeks last year). That makes for a long gap—seven weeks, on average—with no pay and no new job. *Kimberly Weisul*

SHRINKING SEVERANCE



63% want a new hobby or interest.

To characterize the new lifestyles, Harris has created four categories of retirees:

- The Ageless Explorers (27%) are relatively wealthy and well-educated and plan active, independent lives.

- The Comfortably Contents (19%) indulge in a traditional retiree's lifestyle of travel, recreational activities, and relaxation.

- The Live for Todays (22%) share the same goals as the Explorers but are less well off and thus more dependent on a paycheck, perhaps from a part-time job.

- The Sick & Tireds (32%) are the least well-prepared financially or medically and are more likely to view retirement as life coming to a close.

Even so, only 22% of all people see retirement as a time to wind down. *G. David Wallace*

DRAWN & QUARTERED



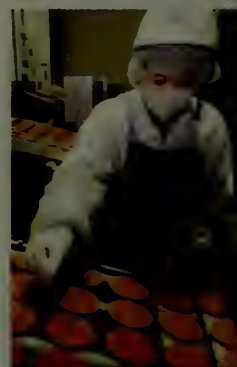
DAMAGE CONTROL

A MEATY MESSAGE FOR THE JAPANESE

IN TOKYO'S GINZA, AT THE New Tokyo bar and grill, the U.S. Meat Export Federation has a reassuring message for consumers. "America is a BSE-free nation," says a Japanese-language flyer—that is, free of bovine spongiform encephalopathy, or mad cow disease. Seems the outbreak of cases in Japan last year, which sent meat consumption reeling, has hurt U.S. producers, too.

Japan, home of famously expensive Kobe beef, is the No. 1 destination for U.S. beef

exports. Sales fell 11% year, to \$1.6 billion, due strong dollar and the cows. So in March, the ver-based trade group, backing from the U.S. A culture Dept., launched a million marketing blitz to



U.S. BEEF: Mad cow crimped sales

back lost business. The message to the point: "you can trust your loving fam-

Rival exporters Australia and New Zealand have taken a more low-key approach, distributing health information and holding seminars. Even Japanese meat consumption is

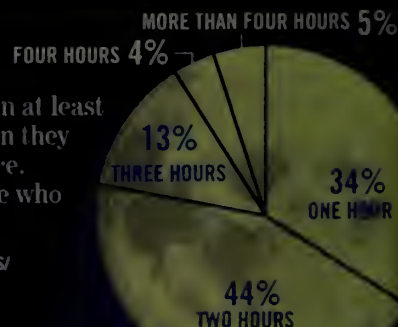
only 85% of pre-scare levels, according to Meat New Zealand promotion group. Full recovery may take years. *Brian Brennan*

THE BIG PICTURE

BURNING THE MIDNIGHT OIL

Most managers put in at least two extra hours when they work late at the office. Here, the percentage who stay at least:

SURVEY OF 1,679 PROFESSIONALS/ MANAGERS WHO WORK LATE AT LEAST ONCE A WEEK. RELEASED APRIL 2002 *



Data: Management Recruiters International

Polls, surveys, and other items for this section should be sent to upfront@businessweek.com

www.meetings.australia.com

For the highest return,
Zurich Financial Services chose
Australia for their convention.

It's not surprising. Nowhere else has Australia's unique
combination of world-class facilities, great value, entrancing
locations and superb weather. Add Australia's world-famous
hospitality and Zurich Financial Services' decision to hold

their convention down under was an easy one. To find out
more about why Zurich and many other leading organisations
are holding their meetings, conventions and incentives in
Australia, visit us at www.meetings.australia.com



EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS:
 Joyce Barnathan, Frank J. Comes, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Arnt, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Peter Elstrom, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehning, Margaret Popper, William Wolman, Seymour Zucker (Sr. contributing eds.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); Robin Ajello, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Dan Beucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gerry Khernouch, Julia Lichtblau, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: David Rocks. E-Business: Timothy J. Mullany. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Spencer E. Ante, Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowry. News: John Protos. People: Susan Berfield. Personal Finance: Lewis Braham, Carol Marie Cropper, Susan Schreik, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports business)
STAFF EDITORS: Jeannette Brown, Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Tim Belknap, Aleta Davies, Doug Royalty (Sr.); Giles Blunt, Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Malka Percal, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Nigel Cruickshank, Jamie Elsis, Edith Gutierrez, Ron Pymian (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Dauniss Allen, Joe Calviello, Roger Kenny, Stephen Kenny, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bonzner (Asst.), Nita Le, Rich Michiel, Leo Nietzer, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weil (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper, (Assoc.); Lucy Conticello, Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.). Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Stephen R. Lebron, Kim Maenak, Jose L. Martin, Peter K. Niceberg, Jane M. Perkinson, Karen Turok, Ilse V. Walton (Edit mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Y. Steve Ben-Ari, Steven McCarthy, Anoop Srivastava, Craig Sturges, Mauro Vaisman
ONLINE: Michael Mercuro (Managing ed.), Arthur Eves (Creative dir.), A. Peter Clem, John A. Dierdorff, John Johnsrud; Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Tory Cracolice, Roger Franklin, Brian Hindo, Brian Kelly, Olga Kharif, B. Kite, Matt Kopit, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Arney Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanaj, Eric Wahlgren, Heesun Wee
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad, Aixa Pascual. Boston: William C. Symonds (Mgr.), Faith Keenan, Geoffrey Smith. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Julie Forster, Pallavi Gogoi, Damell Little. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), Joann Muller, David Welch. Los Angeles: Ronald Grover (Mgr.); Larry Armstrong, Christopher Palmeri (Sr. correspondents); Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Himelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C. Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Bormus, Dan Carney, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang; Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Knapani (Mgr.). Frankfurt: Jack Ewing (Mgr.), David Fairlamb, Christine Tierney. Hong Kong: Bruce L. Clifford (Mgr.), Frederik Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.). Stephen Baker, Carol Matlack, Andre Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ilhwan. Singapore: Michael Shari (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunil
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Robert Pondiscio (Director), Heather Carpenter, Christine Fountaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director), Susann Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

SETTING A NEW STANDARD FOR SENSITIVE REPORTING

I applaud you for publishing the article on Forest Laboratories' ("A CEO and his son," Cover Story, May 27). As a mental-health professional, I have found much resistance to treatment from so many well-meaning professionals. Solomon did the right things for his son. What could have ended in death ended in bringing a wonderful human being back to life.

I am sad that there was the loss of the wife/mother, but another loss did not happen thanks to a father's commitment to his family. Solomon then helped his company's employees by implementing an Employee Assistance Program and matching the medical insurance benefits to the mental-health insurance program. This can be costly. However, I believe the long-range bonus will win out. Employee productivity is the first thing that comes to mind.

I hope that companies will begin to see the benefit for themselves and for their communities of honoring their employees as whole human beings. Keep up the good work.

Mimi Coneff
 Loma Linda, Calif.

"A CEO and his son" was both informative and insightful. This is what we have come to expect from *BusinessWeek*, but this story set a new standard by probing and reporting in such a sensitive and holistic manner. It is truly encouraging to find a mainstream business publication that is prepared to address the personal issues that

we must all face as we do business.
 Peter Blum
 Mar Vista, Ca

I was very honored by Susan Berfield's kind and wise cover story about my father and I. I was dismayed, however, by the catalog of vital statistics given beside my photograph, which ends: "Family: Single."

I am gay (as the article indicates) and in a long-term relationship. If you are not able to find language suitable to the fact of a relationship legally proscribed from the word "marriage," then perhaps you should simply leave this particular

tagline off your photos of gay figures.
 Andrew Solomon
 New York

The story about Forest Labs is great, but getting out the facts of the illness that is depression is even better.

Mary N. Winkler
 Franklin, Tenn

WILL THE REAL EARNINGS NUMBERS PLEASE STAND UP

"Earnings: A cleaner look" (News Analysis & Commentary, May 27) examines whether the new definition of operating earnings by Standard & Poor's is likely to be more useful to investors than the pro forma earnings numbers tabulated by Thomson Financial/First Call. A recent study I conducted with Kumar Sivakumar at Boston University suggests that if successful, past attempt to define a similar measure, operating income (which it has

PRESIDENT & PUBLISHER: William P. Kupper Jr.

SR. VP, OPERATIONS: Gary B. Hopkins
SR. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VPS, SALES: Mark A. Flinn (Northeast region and BWTV), Karen Christiansen (Southeast reg.), Grant A. Getz (Midwest reg.), Robert J. Maund (West reg.)

VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia
VP, MANAGING DIRECTOR-ASIA: Alan Lammim
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carvallo
VP, STRATEGIC PLANNING: Kimberly Greer
VP, STRATEGIC PROGRAMS: Jim Richardson
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, MARKETING: Patricia Crocker France
VP, CONSUMER MARKETING: Joyce Swingle

The McGraw-Hill Companies

BusinessWeek
 JUNE 17, 2002 (ISSN 0007-7135) *** 3787
 Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Founder: James H. McGraw (1860-1948).
 Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate \$54.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies/back issues, \$9.95. Call 1-800-298-9867 or email: busweek@mcgraw-hill.com. Subscriber Services: 1-800-635-1200. TDD: 1-800-554-1579.
 Postmaster: Send address changes to *BusinessWeek*, P.O. Box 53235, Boulder, CO 80322-3235. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Registered for GST as The McGraw-Hill Companies, Inc. GST #R123075673.

Copyright 2002 by The McGraw-Hill Companies, Inc. All rights reserved. registered in U.S. Patent Office. European Circulation Center, McGraw-Hill, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 8485

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, Chairman, President, and Chief Executive Officer; Kenneth M. Vittor, Executive President and General Counsel; Robert J. Bahash, Executive Vice President, Chief Financial Officer; Frank D. Penglase, Senior Vice President, Treasurer.

PHOTOCOPY PERMISSION: Where necessary, permission is granted the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any article herein for the flat fee of \$1.00 per copy of each article. Send payment to the CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address requests for customized bulk reprints to *BusinessWeek* Reprints, 1221 Avenue of the Americas, New York, N.Y. 10020 or call 212-512-3148. ISSN 0007-7135/00/0000-0000 PRINTED IN THE U.S.A.



YES, WE DO MANAGE A FEDERAL TAX-FREE COLLEGE SAVINGS PLAN FOR YOUR PRECIOUS LITTLE TAX DEDUCTIONS.

A federal income tax-free¹ 529 College Savings Plan is a smart way to save for college. And when it's managed by a leader in money management, it's even smarter. Contact Fidelity or your advisor to get started. Because you're not just invested. You're **personally invested**.SM

529 COLLEGE SAVINGS PLAN

NOW FEDERAL INCOME TAX-FREE¹
USE AT COLLEGES NATIONWIDE²
EASY TO GET STARTED

CALL FOR A 529 COLLEGE SAVINGS KIT TODAY

800.FIDELITY

| FIDELITY.COM

| 85 INVESTOR CENTERS



Qualified withdrawals made after December 31, 2001 are federal income tax-free. The provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 will expire December 31, 2010. Unless the law is extended by Congress, the Federal tax treatment of 529 Plans will revert to its status prior to January 1, 2002. The UNIQUE College Investing Plan, Delaware College Investment Plan, and U.Fund College Investing Plan are offered by the State of New Hampshire, State of Delaware, and Massachusetts Educational Financing Authority, respectively, managed by Fidelity Investments. If you are not a resident of New Hampshire, Massachusetts, or Delaware, you may want to investigate whether your state offers its residents a plan with alternative tax advantages. Fidelity managed 529 College Plan Portfolios are managed by Fidelity Investments, Inc., a registered investment adviser and a Fidelity Investments company. The money can be used at accredited colleges and universities in the United States. Fidelity Brokerage Services, Member NYSE, SIPC

311353

The new color of commerce

You've probably noticed that UPS is investing considerably in BROWNSM these days. And that investment goes far beyond the 1.4 million gallons of paint needed annually to keep the brown fleet tidy.

So is UPS renaming itself "BROWN"? "Lots of things have changed at UPS, but our name certainly isn't one of them," says Gary Mastro, UPS vice president of brand and product marketing. "We're simply bringing people's understanding of UPS up to speed with our expanded capabilities."

It's a serious endeavor, given that the new UPS "WHAT CAN BROWN DO FOR YOU?"SM ad campaign is the company's most ambitious single advertising effort in its 95-year history. It's based on longstanding UPS brand attributes such as reliable and courteous service, which through the years have become associated with the company's famous—and trademarked—color brown.

"Research told us that, while people are readily familiar with UPS as a package delivery company, they aren't aware of how much our resumé of capabilities has grown over the years," explains Mastro. "Clearly, it was time to tell people what BROWN can really do and who we can help by doing it."

Global Experience for a Global Economy

Sure, UPS delivers to just about anywhere around the globe, more than 200 countries and territories to be exact. But today, UPS augments core transportation services with innovative technology, as well as a comprehensive menu of end-to-end supply chain solutions, and even financial services.

Simply stated, UPS moves a lot more than packages. "From a high-level perspective, UPS moves the three primary elements of commerce: goods, information and funds," says Mastro. By synchronizing shipping, technology and financial services, UPS aims to bring value to every conceivable point of the supply chain, triggering benefits for multiple functions within an organization.

"Even the most basic technologies, many of which have become commonplace at UPS, surprise some," says Mastro.

For example, UPS shipping software can trigger pro-active e-mail notifications that alert your customers a shipment is on the way. The email provides a tracking number to boot. This technology reduces expensive incoming queries about orders to Customer Service. Another service, UPS Signature TrackingSM, is a technology that stores the digital signature obtained at delivery by a UPS driver. Seems fairly basic, but your CFO may be surprised to learn how powerful this signature can be when it is quickly provided to your customers as solid proof that goods have been received. Thus, payment is due. The end result can be expedited collectibles, improving cash flow.

We've come to realize there are very few things we can't do to help our customers improve their business processes

But UPS isn't stopping there. The company has built and acquired an impressive lineup of subsidiaries to offer customers a robust portfolio of complete supply chain services. Today, UPS can tap an enormous bank of intellectual capital found among thousands of experts in industrial engineering, software development, warehouse design and logistics planning, international trade, customs brokerage, and freight forwarding.

"We've come to realize there are very few things we can't do to help our customers improve their business processes," says Mastro.

So, there's probably a lot more to BROWN—and UPS—than you ever realized.

Kathryn Casey is a freelancer based in Manhattan.



WHAT CAN BROWN DO FOR YOU?SM



Giving your customers better service means letting them know when they'll receive what you promised. Brown can do that. With UPS E-mail Ship Notification, your customers not only get confirmation that their orders are on the way, Brown lets them track those orders themselves. So you'll have time to pursue future sales instead of past shipments. And you thought we just delivered packages. **WHAT CAN BROWN DO FOR YOU?™**

and the Customer Service Manager

Readers Report

CORRECTIONS & CLARIFICATIONS

"Tech CEOs aren't buying the buzz on the street," (News: Analysis & Commentary, May 27) should have said that the Nasdaq index increased 122.47 on May 8.

"When bad things happen to good value plays" (News: Analysis & Commentary, June 3) incorrectly identified Alliance Capital Management's chief investment officer. He is Lewis Sanders.

"Don't Light Up, Drink Up" (Up Front, May 27) stated that Nico Water would be sold in CVS, Sav-On Drugs, and Walgreens stores by July. All of these stores say they have no plans to offer Nico Water at this time.

cluded in its Compustat database since 1988), is indicative of the usefulness of its new definition of operating earnings, the answer is no.

We find that the earnings numbers tabulated by Thomson Financial I/B/E/S are more useful to investors than the S&P operating income numbers on three dimensions: They predict future earnings better, they are more highly associated with stock prices, and earnings surprises based on them are more highly associated with stock-price changes when companies announce their earnings. Of course, the past may not indicate the future.

Lawrence D. Brown
Professor of Accountancy
Georgia State University
Atlanta

S&P "core earnings" would shift the burden to company management to explain why the tighter calculations should not be used. Management knows the business best, and that is where the burden of explanation should fall. Rather than calculating thousands of core earnings each quarter, investors could scan a table of core, generally accepted accounting principles, and pro forma earnings, and then, if desired, click to read management (or analyst) explanations. Core earnings would empower investors.

Jim Reimers
Chatsworth, Calif.

I find it ironic that neither the Financial Accounting Standards Board nor the Securities & Exchange Commission has reacted favorably to Standard & Poor's initiative to bring consistency to the measurement of operating income. FASB exists to assure that information is useful to capital provid-

ers; the SEC exists to protect investors.

If neither of these regulators has what it takes to provide financial reporting leadership, they should at least be supportive of those who have the courage to step forward. This lack of involvement is indicative of a classic "trees/forest" deficiency. Their focus on detailed reporting issues (the trees) obscures their vision of the fair and consistent communication of company performance (the forest).

John P. McAllister, CPA
Professor of Accounting
Kennesaw State University
Kennesaw, Ga.

There is no easy way to provide fully reliable measures of corporate profits to investors and shareholders. While all efforts in that direction are both needed and welcome, there is also a need to track a few nonfinancial indexes associated with corporate intellectual capital and knowledge management.

In the Information Age, the value of intellectual capital—however difficult to quantify—well exceeds the worth of tangible assets. Corporations should start reporting indexes such as knowledge-employee turnover and profitable-customer retention as well as some gauge of the extent and effectiveness of investments in information technology. The difficulty of the task does not justify its avoidance.

Gustavo Estrada
Symrna, Ga.

THE COMPLEXITIES OF COMPLEXITY THEORY

Stephen Wolfram says the old science ended in 1984 when he was doing particle physics ("Simple science," Science & Technology, May 27). By coincidence, the Santa Fe Institute was incorporated that year. This respected facility dedicated to complexity studies was conceived before Wolfram's self-designated breakthrough. Wolfram has done brilliant work. Yet he certainly has done nothing to stand out ahead of many others on complexity theory.

Stanley P. Santire
Houston

Re scientist Stephen Wolfram's Rule 30: At last, an explanation of Catch-22.

Jim Robison
Guerneville, Calif.

Wolfram's eight Rule 30 templates are identical to the *Pa Kua* of the I Ching (Book of Changes), the first of the Confucian Classics. Invented dur-

ing the early part of the Chou Dyn (1150 B.C. to 221 B.C.), these eight grams are purported to explain the underlying patterns of the universe how they evolve. Ironically, the trig were said to have been discovered examining the patterns on a tort shell. Sound familiar? I look forward reading Wolfram's book.

Frank Rich
Chevy Chase,

I believe that there is an error in the diagram "Reinventing nature": last line in Step 8 has squares defined as follows: 2 dark, 1 light, 4 dark, 3 light, 5 dark. I believe it should be 2 dark, 1 light, 4 dark, 2 light, 6 dark. That is, the 10th square from the top on the bottom row violates the eighth template in the eight-temple series.

Pete White
Tallahassee,

Editor's note: Writer Whitesell is correct.

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek* Daily Briefing, and access to *BusinessWeek* archives starting in 1991 are available on the World Wide Web.

www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

All letters must include an address and daytime and evening phone numbers. We reserve the right to edit letters for clarity and space and to use them in all electronic and print editions.

Mail: *BusinessWeek*, 1221 Avenue of the Americas, 43rd floor, New York, NY 10020
Fax: (212) 512-6458

Email: bwreader@businessweek.com

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice payments, and account status:

<http://businessweek.com/service.htm>
(click "Manage Your Account")

For individual subscriptions, corporate subscriptions and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

Email: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

Email: bw_group@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

Email: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use; \$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

Email: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm

GLOBALIZATION AND ITS DISCONTENTS

Joseph E. Stiglitz
Norton • 282pp • \$24.95

WHERE GLOBAL MARKETS ARE GOING WRONG

has long been an article of faith in the American economics profession that globalization—in the form of trade and open markets—is both beneficial and inevitable. Even if globalization has its problems, conventional wisdom holds that there are no good alternatives.

In his new book, *Globalization and Its Discontents*, Joseph E. Stiglitz dissects. Stiglitz is a scion of the economic Establishment, with an almost unmatched list of accomplishments: Winner of the Nobel Prize in Economics in 1997, chairman of the President's Council of Economic Advisers under Bill Clinton, chief economist of the World Bank, and now professor at Columbia University. This rare mix of academic achievement and policy experience makes *Globalization and Its Discontents* worth reading.

The main point of the book is simple: Globalization is not helping many poor countries. Incomes are not rising in much of the world, and adoption of market-based policies such as open capital markets, free trade, and privatization are making developing economies less stable, not more. Instead of a big dose of free markets, Stiglitz argues, what's needed to make globalization work better is more and smarter government intervention.

While this has been said before, the book carries more weight coming from someone with Stiglitz' credentials. More so, his passion and directness are a breath of fresh air given the usual circumspections of economists. "Critics of globalization accuse Western countries of being greedy," he writes, "and the critics are right." He notes that industrial countries have held onto their trade barriers on such industries as agriculture while demanding that developing nations lower their tariffs.

In some ways, this book has the po-

tential to be the liberal equivalent of Milton Friedman's 1962 classic *Capitalism and Freedom*, which helped provide the intellectual foundation for a generation of conservatives. But *Globalization and Its Discontents* does not rise to the level of *Capitalism and Freedom*. While Stiglitz makes a strong case for government-oriented development policy, he ignores some key arguments in favor of the market. In particular, even if government intervention works in theory, many developing countries don't have the sort of professional institutions that could implement good policies.

Globalization and Its Discontents is also repetitious, with stretches of ponderous prose. And even though Stiglitz is aiming for a popular audience, the book could use more data to back up his assertions.

Still, Stiglitz makes his case effectively. The book's main villain is the International Monetary Fund, the Washington organization that lends to troubled countries. Stiglitz' contempt for the IMF is boundless. "It is clear that the IMF has failed in its mission," he declares. "Many of the policies that the IMF pushed...have contributed to global instability." Stiglitz argues that the organization made multiple mistakes handling the Asian crisis of 1997, the Russian crisis in 1998, and even the latest problems in Argentina.

In fact, the author argues, the IMF policies of fiscal austerity, privatization, and market liberalization show little evidence of being an effective road for growth. Instead, East Asian countries such as China and Korea have succeeded precisely because they did not follow most of the dictates of the Washington

consensus. After the Asian crisis, for example, Korea accepted a bailout package from the IMF but resisted most of its reform demands, including advice to get rid of excess capacity in the semiconductor industry. Stiglitz argues that in contrast, Thailand followed IMF prescriptions "almost perfectly." The results: Korea recovered much faster than did Thailand.

Stiglitz observes that the IMF's objectives have changed "from serving global economic interests to serving the interests of global finance." He is caustic when he talks about top officials of the IMF ending up going to work for large financial institutions. One example: Stanley Fischer, deputy managing director at the IMF during the Asian and Russian crises, is today vice-chairman at Citigroup. Writes Stiglitz: "One could only ask, was Fischer being richly rewarded for having faithfully executed what he was told to do?"

Stiglitz offers alternatives to the IMF's policies. An example: When a developing country faces a financial crisis, he suggests keeping interest rates low instead of raising them and worsening the recession. It's also vital to keep credit flowing, he says, rather than closing banks, as the IMF suggests.

While Stiglitz agrees that privatization, open capital markets, and free trade are fine ideas in the long run, he argues that slow reform is best. Instead of issuing mandates, the IMF should use its resources to help fund health and literacy efforts, says Stiglitz.

The author's prescriptions have their own problems, though. For example, he predicts that growth in Russia will succeed only if the country creates an "investor-friendly environment." But that may be difficult, he admits, without drastic political reforms.

Still, just as Friedman's book helped to legitimize certain pro-market ideas before they became popular, so may *Globalization and Its Discontents* give additional weight to a new conception of globalization. That would be no small accomplishment.

BY MICHAEL J. MANDEL

Mandel is BusinessWeek's chief economist.



STIGLITZ' MAIN VILLAIN: IMF POLICIES THAT MAKE DEVELOPING ECONOMIES EVEN LESS STABLE

BY STEPHEN H. WILDSTROM

tech&you@businessweek.com

DON'T BE FOOLED BY THE NAME ON THE BOX



Today, even the design of brand-name gear is farmed out. Often, though, that's not bad news

Few products have won Compaq Computer as much favorable buzz as the sleek iPAQ Pocket PC. But Compaq, now part of Hewlett-Packard, neither designed nor made the iPAQ. The handheld and its clever system of interchangeable accessory sleeves were products of a Taiwanese company called HTC (www.htc.com.tw), one of an increasingly important breed known in the trade as original design manufacturers, or ODMs.

PC makers have been using contract manufacturers to build many of their products for years. Even IBM, one of the last U.S. companies to do most of its own manufacturing, has contracted out all of its desktops and some ThinkPads. What's new here is the farming out of the design work as well. The amount of involvement by the "name" company ranges from extensive modifications of the ODM's work to simply slapping a logo on an off-the-shelf product.

Some ODMs, such as South Korea's Samsung and LG Electronics or Taiwan's Acer, market product lines under their own brands, too. Others, such as HTC and Quanta, also Taiwanese, exist almost entirely on contract work.

Consumers have no good way to know whether the well-known company that put its brand on a product designed or built it. But for the most part, it doesn't matter. The ODMs generally do good work, and to guarantee it, top-tier companies such as Compaq or Dell usually station their own quality-assurance inspectors at the contractors' facilities. The downside is that laptops, handhelds, and other high-tech products could become even more commodity-like.

One example of this is a handheld built by HTC and based on Microsoft's new Pocket PC Phone Edition. Wireless phone carrier mmO₂ (formerly BT Cellnet) will sell it in Britain, Ireland, the Netherlands, and Germany as the XDA. VoiceStream Wireless will introduce the same unit in the U.S. market under the T-Mobile brand of

VoiceStream's corporate parent, Deutsche Telekom. Sometimes the similarity of ODM products get downright embarrassing. Dell and Gateway recently came out with a pair of notebooks: Dell Latitude X200 and the Gateway 200, seem identical except for their branding and some minor differences in components. In fact, they are the same product, designed and built by Korea's Samsung (which sells another version of the notebook in Asia under its own brand name, the Q10). Both Dell and Gateway felt they needed an ultralight to fill out their product line. They both snapped up the same off-the-shelf design from Samsung.

A Gateway spokesperson says the company "was fully involved in the entire product-development process," though it chose, for cost reasons, not to modify the basic design. The companies did make different choices in components and warranties (below): Gateway chose to include a docking station that incorporates a ROM drive while Dell went for a standard drive with an optional dock.

In the early days of laptops, Taiwanese products, often sold under obscure brand names, had a reputation for dubious quality. Today, how-

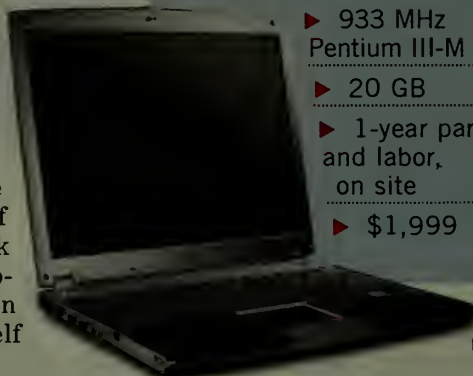
Separated at Birth

Gateway 200

- ▶ 933 MHz Pentium III-M
- ▶ 20 GB
- ▶ 1-year parts and labor, on site
- ▶ \$1,999

Dell Latitude X200

- ▶ 800 MHz Pentium III-M
- ▶ 30 GB
- ▶ 3-year parts and labor, on site
- ▶ \$2,101



Data: Dell, Gateway

the quality of products from Taiwan, as well as those from Korean companies newer to the notebook business, is first, whether branded by top-tier companies like Compaq or Dell or lesser-known players such as Viewsonic. Apple's beautifully made Titanium PowerBook, built by Quanta, is evidence of a sort of precision manufacturing that these companies can handle. And I haven't noticed big quality differences between, say, Dell laptops designed and built by an ODM in Taiwan and ThinkPads designed and built by IBM.

If consumers can't tell who makes laptops or even who designs them, how are they to choose? In the final tally, what really matters are the intangibles, such as the warranty, service, and the tech support provided by the dealer and the company whose brand is on the product. The growing reliance on ODMs may be increasing commoditization of products and reducing variety. But it's also pushing down prices on high-quality products, and that's a good thing for consumers.

BusinessWeek online

COMPUTERS FOR THE COLLEGE-BOUND. Check out an updated guide on what to take to school at Technology & You at www.businessweek.com/technology/

BY JEFFREY E. GARTEN

WHEN EVERYTHING IS MADE IN CHINA



DANGER:
The world
economy is
getting more
reliant on
Chinese
factories.
But having
one giant
supplier
could mean
a giant
disruption

Jeffrey E. Garten is dean of the Yale School of Management. A former investment banker, Garten is the author of *The Mind of the C.E.O.* (jeffrey.garten@yale.edu).

During the past few months, Intel Corp. announced a \$100 million investment in Shanghai to assemble Pentium 4 microprocessors. Dell Computer Corp. moved its giant PC-making facility from Kuala Lumpur to Xiamen. The provincial government of Shenzhen said it would provide \$5 billion to boost its integrated-circuit industry. It's not hard to connect the dots. "China is becoming a manufacturing superpower," Kenneth Courtis, Goldman, Sachs & Co.'s vice-chairman for Asia, says, "and the momentum seems unstoppable."

The big question is whether the world economy is becoming so dependent on China as an industrial lifeline that it will soon be dangerously vulnerable to a major supply disruption caused by war, terrorism, social unrest, or a natural disaster. In other words, will China's importance to global manufacturing soon resemble Saudi Arabia's position in world oil markets?

Among developing nations, China has been the largest recipient of foreign investment, averaging about \$40 billion per year during the late 1990s. Membership in the World Trade Organization will result in even higher levels. U.S. companies are shifting manufacturing from Malaysia, Thailand, Indonesia, and even Mexico to China. Toshiba Corp. is making its TVs on the mainland, and Sony Corp. is manufacturing its PlayStations there. Taiwan's companies produce half of all their information-technology products in the country.

China's advantages are numerous. Its wage rates are a third of Mexico's and Hungary's, and 5% of those in the U.S. or Japan. China's investments in education and training are attracting research facilities from companies such as IBM, Motorola, and Microsoft. The critical mass of factories, subcontractors, and specialized vendors has created a manufacturing environment with which few can compete. China is not just an export platform, either; its large and expanding domestic market is another attraction.

The mushrooming investment also reflects the obsession among global CEOs to lower production costs by outsourcing whatever they can to large-scale specialists. According to Bear, Sterns & Co., 50% of all manufacturing could be outsourced by 2010. Flextronics International Ltd., the world's largest manufacturing subcontractor, is illustrative. It operates in 28 countries on behalf of companies selling everything from cell phones to washing machines. Its revenues have grown from \$100 million in 1993 to an estimated \$14 billion today. Its business in China is pro-

jected to double this year over 2001 and to reach 40% of its worldwide production in 10 years, up from 24% in 1998.

How worried should the U.S. be? To be sure, in the 1980s, one heard false alarms about Japanese dominance of high-tech industries. But China is far more open to foreign investment along with greater cost advantages and more rigorous higher education.

No one would say China dominates manufacturing—yet. But in April, Congress' General Accounting Office criticized the Clinton and Bush Administrations for failing to analyze China's growing sophistication in semiconductor technology. In the June issue of *Harper's*, investigative journalist Barry Lynn underscores the vulnerability of the U.S. economy to global supply lines that originate in China and Taiwan and are designed for just-in-time delivery to our critical industries. Michael Marks, chairman and CEO of Flextronics, has concerns, too. "I worry that CEOs are overreacting to short-term cost considerations," he told me. "Too much concentration in China could lead to serious supply disruptions. It would be better if their manufacturing facilities were more geographically dispersed."

Unfortunately, it is no one's job to analyze the aggregate risks. Chief executives are rightfully seeking profits in a hypercompetitive world. China is admirably opening its economy to foreign investment. The national-security community is understandably focused on terrorism as a weapons of mass destruction. Threats to highly complex global supply chains seem not to be the subject of any national or international group.

There isn't an easy answer for every problem of course. But it is not too much to ask the Bush Administration to create a joint government-business task force to examine key questions. Is the approximately 90% of all foreign investment that is geographically located in China's coastal provinces a dangerous concentration? Should Washington take another look at tax and tariff incentives to make the entire Caribbean Basin—Mexico, Central America, and the islands—more attractive to foreign manufacturers? Should multinational companies be encouraged to hold larger inventories closer home? Does China need to beef up its security around its vast industrial parks?

For a quarter of a century, Washington and Wall Street have wanted China to become an integral part of the world economy. Their wish has been granted, and now it's time to come to grips with the implications.

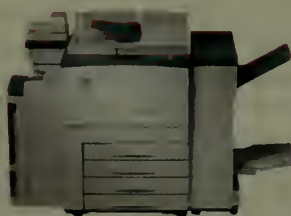
VROOM



Only a Xerox Document Centre® shifts your office into overdrive. It prints, copies, faxes, scans and e-mails like no other. Saving you time and money.

There's a new way to look at it.

Performance proves it. Top companies know it. That's why 86% of FORTUNE 500® companies rely on Document Centre Multifunction systems to save time and money.* Our unique design provides



maximum network performance. The result is cost-crunching productivity that puts your business way ahead of the pack. To find out how we can save your business time and money, get in touch today.

Visit: www.xerox.com/vroom Call: 1-800-ASK-XEROX ext.VROOM

THE DOCUMENT COMPANY
XEROX.

*Document Centre features are optional ©2002 XEROX CORPORATION All rights reserved XEROX® The Document Company® Document Centre® and There's a new way to look at it are trademarks of XEROX CORPORATION

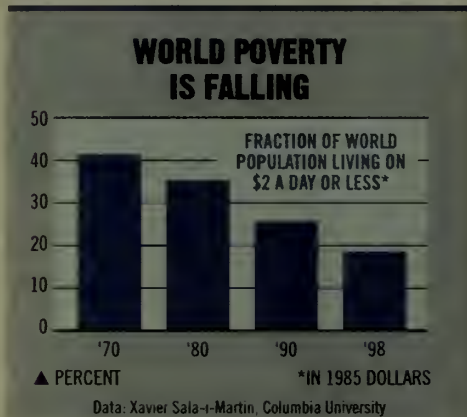
BY PETER COY

POVERTY: THE NEWS BRIGHTENS

India and China help turn the tide

Critics of globalization say free trade and cross-border investment have benefited the rich at the expense of the poor. They argue that the ranks of the poor are growing, and that the disparity between rich and poor has grown.

The truth is more cheerful, says Xavier Sala-i-Martin, an economist at Co-



lumbia University. He calculates that the fraction of the world's population below the poverty line (defined as an income of \$2 a day in constant 1985 dollars) fell to 19% in 1998 from 41% in 1970 (chart).

Overall inequality has decreased as well. One way economists measure inequality is by the Gini coefficient, a zero-to-one scale on which zero means each person in the world has the same income and one means that a single individual collects the world's entire income. Sala-i-Martin estimates the world's Gini coefficient fell to 0.63 in 1998 from 0.66 in 1970.

Rising incomes since 1980 in China and India, the world's most populous nations, account for most of the improvement. In contrast, poverty worsened in Africa. In 1970, 11% of the world's poor were in Africa and 76% were in Asia. By 1998, Africa's share of the poor had risen to 66% and Asia's had fallen to 15%. Latin America was neither as good as Asia nor as bad as Africa: Poverty in Latin America decreased in the 1970s but has changed little since then, Sala-i-Martin calculates.

Most previous studies of global income inequality compared national average incomes. But such an approach neglects that countries have different degrees of income inequality within their borders.

Sala-i-Martin says his study, published as a working paper by the National Bureau of Economic Research, uses the most detailed estimates yet of the income distributions within countries. It covers about 90% of the world's population, excluding countries for which 30 years of data don't exist, such as Russia.

While Sala-i-Martin focuses on the good news, he writes that "the number of poor is still embarrassingly large." In 1998, he estimates, 350 million people scraped by on less than \$1 a day (in 1985 dollars) and nearly a billion people lived on less than \$2 a day.

EMPLOYMENT'S ALTERED STATE

How the New Economy affects jobs

Michigan State University labor economist David Neumark used to scoff at the notion that jobs have become shorter-lasting and more contingent. But he's beginning to believe that New Economy jobs may be different from Old Economy jobs in important ways. In a new paper, Neumark and co-author Deborah Reed of the Public Policy Institute of California in San Francisco say the New Economy "may entail a possibly significant and long-lasting increase in contingent and alternative employment relationships."

Neumark and Reed looked at employment relationships in 10 metro areas described as New Economy cities in a Brookings Institution study, topped by San Jose, Calif., Austin, and North Carolina's Research Triangle. The 10 areas exceeded the national average in their percentage of contingent and alternative jobs, defined as jobs in which people work on contract, generally for short periods. This New Economy effect was concentrated among workers with a college education. New Economy cities "feel different," says Neumark. "It seems like there's a different set of norms about employment relationships."

Looking at employment patterns in New Economy cities was only one of three ways Neumark and Reed explored the question of contingent jobs. They also looked at jobs in high-tech industries and research and development operations. Surprisingly, they found these businesses were slightly less likely than average to employ contingent and alternative workers. That reflects the fact that many high-tech manufacturers, such as Intel Corp., have stable, salaried workforces. The authors speculate that

there may be lots of contingent employment at "innovative and knowledge-based companies" that grow up around companies such as Intel yet aren't themselves classified as high tech.

In a third cut at the question, Neumark and Reed also examined employment in fast-growing industries, whether they were high-tech or not. They find that such industries, from computer services to investment companies, have a much higher level of contingent and alternative jobs. But they said that does not prove a New Economy connection, because much of the effect came from the construction business. What's more, the authors noted that the industries may quickly cut back on contingent jobs if their growth rates slow.

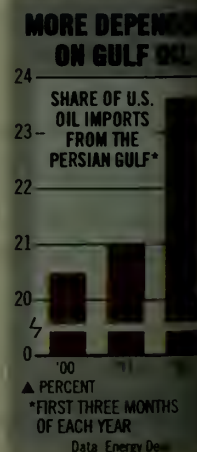
WHOSE FUEL IS IN U.S. CARS?

Increasingly, it's from Iraq

While President Bush has been campaigning to reduce U.S. dependence on oil imported from the volatile Middle East, imports from the Persian Gulf have been rising steadily. The share of U.S. imports from Persian Gulf countries—Bahrain, Iran, Iraq, Kuwait, Qatar, Saudi Arabia, and the United Arab Emirates—rose to 23.6% in the first quarter of this year, from 20.5% in the first quarter of 2000 and 21% in the first quarter of 2001, according to Energy Dept. data (chart). This year's level is the highest of any first quarter since 1992.

Iraq is the biggest factor. The U.S. imported 2.5 million barrels of Iraqi crude a day in the first quarter of 2002, up from 1.5 million in 2000's first quarter and 1.1 million in the 2001 period. Since then, Iraq's share of U.S. imports has fallen because of its self-imposed embargo in April and U.S. pricing rules that have discouraged purchases of Iraqi oil.

One reason the U.S. is importing more Gulf oil may be that Europe is taking less—because it's getting more of its oil from Russia, says John Kingston, global director for oil at Platts, a unit of The McGraw-Hill Companies.



JAMES C. COOPER & KATHLEEN MADIGAN

INVESTORS ARE IGNORING ALL THE GOOD NEWS

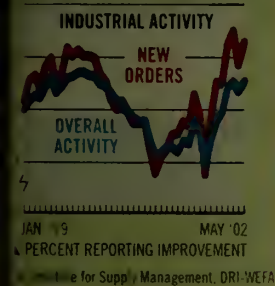
Demand is invigorating industry, and some price hikes are sticking

U.S. ECONOMY

In the movie *Moonstruck*, Nicolas Cage's character is in a funk—at which point Cher's character, the object of his affection, gives him a bracing slap across the face and demands, "Snap out of it!" If only it were that easy with the stock market.

The current mood of investors is much worse. In recent weeks, news on the economy—and its forward-looking implications for continuing growth and rebounding profits—has been uniformly excellent. But on June 3, for example, when a report on industrial activity, usually a market-mover, showed surprisingly strong growth in May, stock prices sank to lows not seen since just after September 11. Investors seemed more concerned about the corporate soap opera at the conglomerate Tyco International Ltd. (page 30).

ORDERS POWER RENEWED INDUSTRIAL ACTIVITY



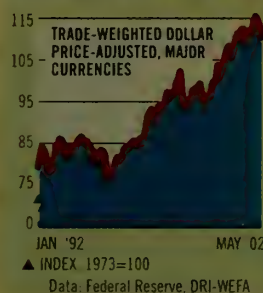
What's out of whack here is that investors seem to have forgotten that stock prices embody economic prospects, a fact that traditionally has made them a foreshadowing indicator of the economy. Right now, investors are behaving as if there is no recovery and as if an upturn in profits is nowhere on the radar screen—even while the evidence to the contrary is smack in their faces. Consider the latest data. In May, consumer confidence rose to levels not seen since before the recession officially began. Car sales, while down from April, are still running slightly ahead of their first-quarter pace. Mortgage applications to buy a home hit a record in May, and are also above their first-quarter level. Moreover, consumer demand is invigorating the industrial sector. The nation's supply managers said that in May, rising orders were boosting industrial output and pricing power (chart). The report followed April news that factory orders rose more than expected, including a big jump in capital goods orders. And productivity data show that companies are cutting costs drastically and shoring up profit margins without incurring the usual pain on workers' buying power.

SPITE ALL THIS UPBEAT NEWS on the recovery, investors seem more concerned that something is rotten in Corporate America and that it is distorting the true

picture of profitability. To be sure, uncertainties run high in this recovery, including threats of terrorism, Middle East conflict, war between India and Pakistan, an eroding fiscal balance at home, and now the dollar. But with market sentiment as poor as it is now, these worries are bound to be magnified.

The dip in the dollar is the latest fear. Investors worry that foreigners will begin to abandon U.S. investments for more attractive bets elsewhere in the world. However, keep the greenback's slippage in perspective. Its price-adjusted, trade-weighted value against a basket of major currencies through the end of May is down 3.8% from its February peak. However, that level was 39% above the dollar's average level during the first half of the 1990s—and a zenith at which the greenback was widely believed to be overvalued by most measures (chart). In the year ended Feb. 28, the dollar even managed to gain 7.3%, an unusual pattern during a recession.

SOME PERSPECTIVE ON THE DOLLAR'S RECENT DECLINE



SOME DEGREE OF ORDERLY DECLINE in the dollar is likely to be more salutary than harmful. It will help to boost exports as global markets recover, and it will even lift profits of U.S. multinationals, as those earnings are translated back into dollars. It will also give U.S. manufacturers a little more pricing power.

The flip side of the dollar's downward adjustment—mainly, heightened inflation pressures—would come into play only if the drop were rapid and sizable, reflecting a crumbling of faith in the U.S. economy. That seems highly unlikely, as the recovery continues to take shape, and especially as exceptional productivity growth signals that long-run prospects for U.S. economic growth and profitability are the most favorable in the world.

Indeed, the recovery is on increasingly solid ground. Even the manufacturing sector, which had suffered its steepest recession since World War II, is getting pulled along. The Institute for Supply Management's index of industrial activity rose from 53.9% in April to 55.7% in May. The index set a high for this recovery, and the gains were broad across industrial sectors. In the past, a reading at that level, if maintained, has been consis-

Business Outlook

tent with overall economic growth of at least 4%.

The details of the ISM survey of companies are especially encouraging for future growth. The ISM's orders index shows orders are growing at a rate last seen in 1999, when the economy was strong. Orders are being driven in part by a rapidly dwindling level of inventory. The group's index of customer inventories, a measure of the adequacy of current stockpiles, fell in May to the lowest level since the ISM began tracking it in late 1996. That will provide an impetus for further gains in orders and production in the third quarter.

Also, the companies in the survey report that markets are tightening up. Delivery times in May were the longest since early 2000, and the ISM's price index rose further, indicating that past price hikes are sticking. The combination of increased output and more pricing power is a good sign that top-line revenue growth is beginning to pick up this quarter, and that pattern should continue this summer.

THE PLUS HERE is that, with productivity growth so strong and unit costs falling so sharply, any revenue gains will go straight to the bottom line. New data on nonfinancial corporations, a sector that produces a more accurate measure of productivity, show that over the past year, productivity rose by a robust 5.5%, while the labor cost of producing a single unit of output fell 0.9%. This means that while prices in the sector in-

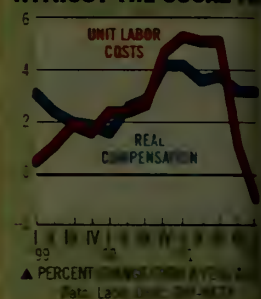
creased only 0.2%, companies were still able to e more on each unit they produced and sold.

But the remarkable story of this business cycle is that, at the same time, the inflation-adjusted compensation of non-financial corporate workers is still growing at a healthy 3.2% from a year ago (chart). In the past, in order for companies to slash unit costs as much as they have in the past year, laborers have typically suffered greatly, often deepening and lengthening a recession. The productivity-driven improvement in both profits and consumer buying power is the key force behind this economic recovery.

Fed Chairman Alan Greenspan was unusually eloquent on this point at an International Monetary Fund conference in Montreal on June 4. He said, "something fundamental is going on in our system which has remarkably improved underlying productivity growth in the economy, and that is going to be a materially positive factor for growth."

Of course, investors still don't see it that way. But they will. Eventually, the good news on economic prospects will be bracing enough to strengthen the backbone of even the most discouraged investor.

SHARP COST CUTTING WITHOUT THE USUAL PAIN



MEXICO

SAY ADIOS TO THE SUPER PESO

Mexico's exporters are breathing easier after the peso's 5.1% devaluation since April. The peso, which hovered around 11¢ (U.S.) for much of the past year, closed at 10.27¢ on June 5.

The weakening was due partly to Mexican companies raising money at low peso interest rates and buying greenbacks to pay down dollar-denominated loans. Rates on 28-day Cetes were 7% on June 5, but had recently touched an historic low of 5.28%. The Central Bank's recent modest easing of monetary policy signaled that a slightly weaker peso would not aggravate inflation, now at 4.4%.

The decline relieved worries that an overly strong peso might

eventually face an abrupt correction, spooking investors. The "super peso" was clobbering the export-driven economy: Over the past year, Mexico lost 350 factories and 240,000 jobs in the

THE PESO HAS LOST GROUND THIS YEAR



maquiladora assembly industry, which produced half of its \$158.5 billion in exports last year.

Economic recovery hinges on a U.S. rebound. The U.S. takes 88% of Mexico's exports. After shrinking 1.4% last year,

Mexico is expected to grow 1.8% in 2002. While the economy shrank 2% in the first quarter, April brought promising signs: Exports and imports both rose above year-ago levels for the first time in 11 months.

The cheaper peso could kick-start foreign direct investment, which last quarter was down \$300 million from a year ago. Investors are waiting for Mexico's divided Congress to decide on opening the electricity sector to private investment and on new loan-collection rules to encourage bank lending, which has slumped badly since the 1995 peso crisis.

Buyers may also trickle back to stocks. Foreigners invested \$150 million in stocks and bonds through March, compared with more than \$550 million in the first quarter of 2001. The Mexican bolsa gained 10% in dollar terms in 2001. It is up 4.1% this year, and a correction may be inevitable. Mexican equities would then look very attractive to investors with dollars to spend.

By Geri Smith in Mexico City

NEW 2003 JAGUAR S-TYPE Beneath its classic, sultry curves, lie the latest advances in technology and performance. We've transformed this stunner into a technological marvel, with a first-in-class 6-speed automatic transmission, refined suspension and Dynamic Stability Control. What that means to you is silky, smooth rides, precise handling and a confident ride, even in the most extreme conditions. A new incredibly well-rounded S-TYPE. Beyond beautiful. **Exceptional at \$44,975.***

jaguar.com/us 1-800-4-JAGUAR

DUCTRESS ON THE OUTSIDE.

MARK RAVING TECHNOLOGICAL MANIAC ON THE INSIDE.



THE NEW S-TYPE

The art of performance



*MSRP. Excludes destination charge, taxes, license, title and optional equipment. Dealer sets actual price.

WHAT CLEANUP?

As Washington dithers, financial reform is going nowhere fast

Just four months ago, bipartisan outrage over Enron's shady dealmaking and Arthur Andersen's lax auditing practices raised hopes that Washington was on the verge of a sweeping overhaul of Corporate America's financial practices. Subpoenas flew, and for a time, CEOs, corporate lawyers, accountants, and Wall Street financiers lined up to testify on Capitol Hill. But now the drive for post-Enron legislative reforms is stalled, victim of Presidential indifference, Republican hostility, fierce business lobbying, and disorganization among reform-minded Democrats.

The paralysis comes despite a steady stream of unsettling news from boardrooms that is sapping investor confidence. Almost daily, investors have been stunned by abrupt CEO departures, earnings restatements, and Securities & Exchange Commission investigations of corporate highfliers. Revelations that Wall Street analysts and traders have put their own interests above those of their clients have made things even worse. With the corporate crime wave showing no signs of abating and Washington gridlocked, investors who normally would be plunging back into the stock market by now are sitting it out.

Clearly, Washington has dropped the ball. Early on, lawmakers offered up more than 50 ways to prevent another Enron, such as banning accounting firms from performing consulting services for audit clients, requiring companies to deduct the cost of stock options from earnings, and capping the amount of

company stock in employee 401(k) plans. But no bills have made it past both houses of Congress, and the outlook for legislation reaching the President is grim. "If there is no real progress on serious reform," says Felix G. Rohatyn, former managing director of Lazard LLC, "it will just perpetuate this cloud that is hanging over the securities markets."

There has been scant leadership from a White House preoccupied by the war on terrorism and by global hotspots. President Bush has said little publicly since a White House task force in March produced a 10-point plan that called for more timely disclosure of financial information, more accountability to shareholders, and stronger board oversight of auditors. And Bush's conservative economic advisers remain convinced that many reforms would do more harm than good. "We [need] better transparency, better accountability, and improved governance," says chief White House economist R. Glenn Hubbard. "Beyond that, there's not really a role for government."

That view is widely shared by Hill Republicans. But to avoid Democratic charges of complacency, the House GOP has pushed through bills that adopt the rhetoric of reform but mandate few meaningful changes. And while many Senate Democrats favor stronger steps, they lack the votes to propel them to passage. "It is becoming increasingly clear that we may not get real reform," frets Senator Jon S. Corzine (D-N.J.).

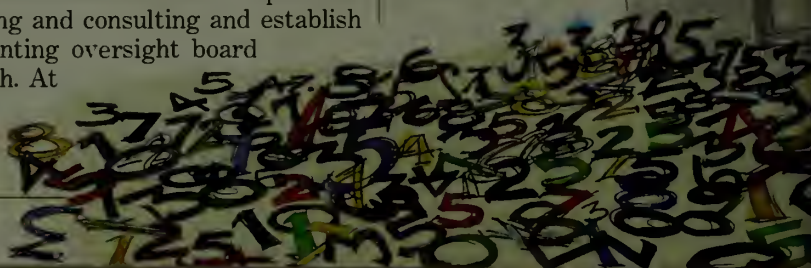
Yet there's more to Congress's weakening resolve than gridlock. Corporate and accounting industry reps, for instance, have mounted a sophisticated lobbying blitz to bottle up Democratic measures that would force a separation of auditing and consulting and establish an accounting oversight board with teeth. At

the grassroots level, thousands of organized by the American Institute of Certified Public Accountants, have ed lawmakers with faxes, e-mails, sonal visits—and money. The profe has given \$4 million in campaign tributions so far in the 2002 election. Top recipients include membe the Senate Banking and House Financial Services panels, which have jurisdiction over accounting. All told, 75% of makers got money from the green shade brigade.

The CPAs have succeeded in wading down reform in the House and are homing in on the Senate. Banking Committee Chairman Paul Sarbanes (D-Md.) has had trouble getting his Senate colleagues to approve a tough bill that would give a new oversight board the authority to set audit standards and discipline errant accountants. It would also ban auditors from most consulting services and require firms to rotate the lead partner on an audit every five years. The prospects are dim.

Orchestrating the counter-reformation is Texas GOP Senator Phil Gramm, whose wife, Wendy, sits on Enron Corp.'s board. On May 16, Gramm met with 30 corporate and accounting lobbyists to plot strategy and get their members to contact lawmakers. Later that day, Sarbanes began receiving faxes from Maryland-based CPAs. Clifton Gunderson LLP, a Timonium (Md.) CPA firm, fired off a fax saying: "Congress should consider proposals that will promote economic recovery, not enact legislation that inhibits it." That language comes directly from the AICPA call to action.

So far, the business lobby has overpowered pro-investor voices. Consumer groups, the AARP, and Common Cause support reforms. But they either lack mus-



or are unwilling to devote resources to fight business. The vacuum has prompted Vanguard Group founder John Bogle to start the Federation of Independent-Term Investors, a shareholder-rights group including Warren E. Buffett and other prominent investors. A strong

accounting oversight board is a top priority. "Our capitalistic system is in peril," says Bogle.

While the reform drive in Washington has largely stalled, the private sector is mustering a response to the market's demand for a cleanup. Dozens of corporations have fired consultants affiliated with their audit firm, and at least 18 companies have adopted shareholder proposals to make the split permanent. Boards, meanwhile, are strengthening their audit and compensation committees with directors who have no ties to management, acting in advance of proposed new stock exchange rules (page 29). "We are seeing the beginning of a cultural shift in corporate governance," says William B. Patterson, director of the AFL-CIO's Office of Investment.

That shift is getting a push from the SEC. Chairman Harvey L. Pitt leaned on the markets to shape up governance rules. He's calling for shareholder approval of all stock option plans. And if Congress doesn't establish an accounting oversight board, he'll propose his own version—although it won't be able to subpoena records.

But Pitt's main achievement has been a crack-down on accounting abuses. In the first quarter of 2002, the SEC opened 64 financial-reporting cases, more than twice the number in the 2001 quarter.

Still, Pitt has made many missteps, undercutting investor confidence. While the SEC pressed for new rules to address stock analyst conflicts, the agency played catchup with New York Attorney General Eliot Spitzer's probe of Merrill Lynch & Co. And other states are capitalizing on Washington's inaction (page 62). Pitt, a Washington lawyer who represented the Big Five firms, has also been criticized for meeting with former clients and other companies under SEC scrutiny.

The lack of strong, visible leadership on accounting and market

reforms in Washington has left investors wondering what sort of shield they'll have against the next wave of corporate abuses. The drumbeat of SEC investigations only serves to scare investors away from the market. And as long as Washington dithers, investors don't have any reassurance that the corporate numbers game will end soon. "We need a restoration of trust from every entity," including government, says Byron R. Wien, senior investment strategist at Morgan Stanley. But as George W. Bush once observed, trust is not a commodity in great supply in Washington these days.

By Amy Borrus, Mike McNamee and Paula Dwyer, in Washington, and with Marcia Vickers and David Henry in New York

WHY REFORM HAS STALLED

ACCOUNTING

► Hill Democrats hoped to ban consulting by audit firms for corporate clients and create a strong auditor oversight board. Accounting firms and corporations lobbied hard against both. White House proposal directs the SEC to write auditor guidelines.

STATUS House-passed bill favors Bush approach. Senate Democrats have yet to send a bill to the floor.

EXECUTIVE PAY

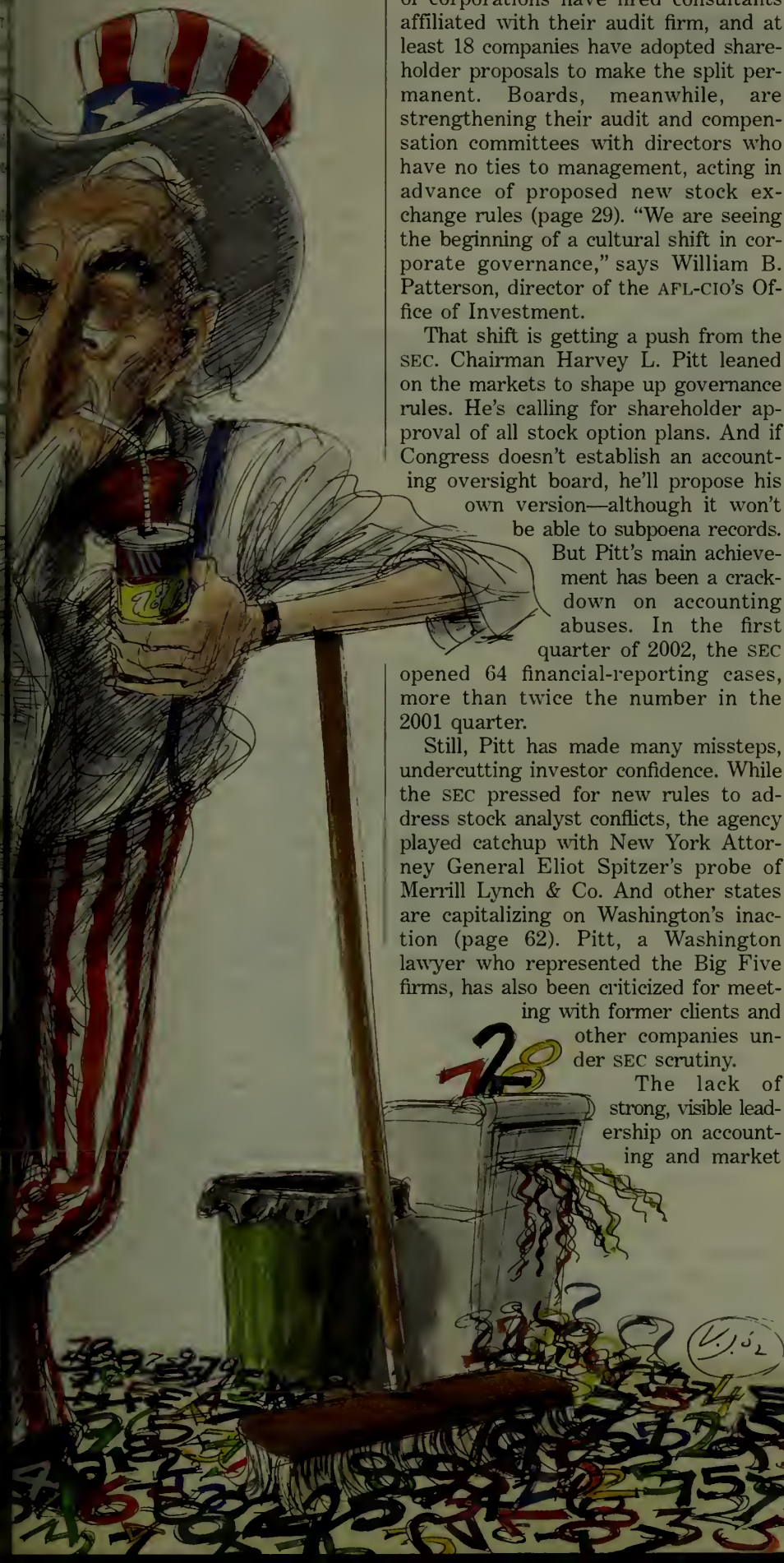
► Some senators want companies to deduct stock options from earnings if they take a deduction when options are exercised. White House, SEC, and Silicon Valley are opposed.

STATUS Senate measure lacks votes, making passage highly unlikely.

CORPORATE GOVERNANCE

► SEC jawboned stock exchanges to require boards to oversee auditors and to get shareholder approval of stock options. Investors and activists pushed companies to separate auditing from consulting.

STATUS While NYSE is proposing tough new listing standards that follow SEC ideas, Nasdaq's new rules are weak. Many companies are no longer hiring audit firms for consulting work.



COMMENTARY

By Mike McNamee

THE SEC'S ACCOUNTING REFORMS WON'T ANSWER INVESTORS' PRAYERS...

What do investors want most as Enron, Global Crossing, Kmart and a host of other companies are investigated for playing games with their numbers? Better information, so that those willing to do their homework can be sure they won't walk into another corporate tar pit. And given a choice between more reliable information and faster reporting, most would likely opt for quality over speed. But that's not the way the Securities & Exchange Commission sees it.

As a part of Washington's response to the corporate crime wave, SEC Chairman Harvey L. Pitt wants companies to deliver quarterly reports known as 10-Qs to the SEC 30 days after a quarter closes, down from the current 45. To Pitt, that's a vital step toward better informing investors about their stocks' health and alerting markets to corporate shenanigans.

But faster isn't always better. The SEC proposal is likely to mean that time-pressed companies will give investors half-baked analysis, not clearer disclosure. At the same time, the agency is ignoring the No. 1 source of corporate misinformation: earnings press releases, in which executives are allowed to abandon sound accounting in favor of selective hype.

Pitt's instincts are right, but his plans are contradictory. Under one post-Enron proposal, his SEC is calling for companies to pack more into the official 10-Q quarterly and 10-K annual reports they file with the SEC. Pitt wants more disclosure of off-balance-sheet financing, critical accounting policies, and management's view of how a business is faring beyond the numbers.

Investors would welcome richer, fuller disclosures. The question is whether they will actually get it—especially if, as the SEC proposes un-

der a separate rule, the agency cuts by one-third the time companies have to prepare all this analysis. Chief financial officers say they might manage to deliver annual reports to meet a 60-day deadline, down from the current 90, but that 30 days just isn't enough for quarter-



HARVEY PITT

A FULL INCOME STATEMENT prepared according to generally accepted accounting principles
RECONCILIATION between "pro forma" or "operating" earnings and the traditional GAAP income statement

ly reports. "We're all for additional value-added disclosure," says Stephen P. Wolfe, CFO of Toro Co. in Bloomington, Minn. "But doing more of that on a shorter timetable is inconsistent."

Meanwhile, the SEC isn't focusing on the real issue: misleading earnings press releases. Those releases, which usually come out 14 to 30 days after a quarter's end, aren't required to follow standard accounting principles. That allows companies to put the

best spin on performance. "Markets are trading on the pro forma numbers that management presents—and then weeks or a month later, we get the full story," says Craig S. Tyle, general counsel of the Investment Company Institute, which represents mutual funds. "We need better data the first time."

Getting rid of the creative writing would help. At a minimum, ICI says, the SEC should require companies that use pro forma earnings to also provide an income statement prepared under generally accepted accounting principles (GAAP). Gale E. Klappa, CFO of Atlanta-based Southern Co., would go further: The SEC should set standards for the income, balance-sheet, and shareholder equity data required in earnings releases. The New York Stock Exchange, too, is calling on the SEC to require companies to put out GAAP-based financials before they can offer up pro forma numbers.

Pitt & Co. say they don't have the authority to dictate the content of press releases. Instead, they say they can only crack down after companies provide fraudulent data. But that's a hollow argument: The SEC constantly regulates communications in the markets.

Beefing up press releases might delay earnings announcements—but only by a few days. That's a small price to pay for honest information. And if markets get straight data from the start, investors could afford to wait until 45 days after the

quarter's end to get the hard-to-prepare nitty-gritty that companies are required to put in footnotes and management analysis. Companies can use the time to ensure that their 10-Qs provide real disclosure—not just boilerplate. That, rather than a token speed-up in SEC filings, will do the most to meet investors' real needs.

McNamee covers the SEC in Washington.

CLOSING THE INFO GAP

The SEC should set basic, minimum requirements for corporate earnings press releases:

SEPARATE DATA on results from major business units

NO-NONSENSE BALANCE SHEETS, with detailed footnotes to come later

PLAIN-ENGLISH statement of management's views on business prospects

Pitt's emphasis on greater speed in financial reporting misses the point: Quality outweighs timeliness for a wary public

COMMENTARY

By John A. Byrne

...BUT CHANGES IN THE BOARDROOM COULD REBUILD TRUST

Nearly 50 years ago, a Harvard Business School professor observed that too many boards of directors were mere "ornaments on a corporate Christmas tree"—largely decorative, in other words, and serving little real business purpose.

The recent spate of accounting scandals, ethical lapses, and outrageous CEO payouts is proof that not much has changed. Now, in the post-Enron Corp. world, there is no shortage of new ideas for making boards more responsible to shareholders and less beholden to management. But the most reasoned and intelligent response to the governance crisis is coming from, of all places, the New York Stock Exchange, that bedrock of free-market power. On June 6, the NYSE unveiled proposals that, if accepted, would force some of the most dramatic changes ever in corporate governance.

NYSE Chairman Richard A. Grasso got into the reform-making act at the request of Securities & Exchange Commission head Harvey L. Pitt, who on Feb. 13 asked for a review of the exchange's listing standards. Grasso acted swiftly, recruiting former AOL Time Warner Inc. CEO Gerald M. Levin, New York State Comptroller H. Carl McCall, and Leon Panetta, ex-White House chief of staff, to head up the efforts.

Their recommendations pose a clear challenge to boards: Start thinking for yourselves. Among other things, the new rules would force the

independent directors of every company listed on the exchange to meet regularly without management present. That group would have to name a lead director to preside at these sessions, and the panel could communicate directly with employees and shareholders.

Best of all, the proposals put the CEO on the moral—if not legal—hook

New NYSE rules would put CEOs on the moral—if not legal—hook for company results

for the company's results. Each year, the boss would have to certify that information provided to shareholders is accurate and complete and that the company is complying with the new standards. The NYSE would publicly reprimand first-time violators and could delist a company that repeatedly or flagrantly defies the rules. "That is tough stuff," says Ira M. Millstein, a longtime governance guru.

With Congress gridlocked and the SEC playing catch-up, the NYSE's proposed new rules could go a long way toward correcting more than a decade of excess and abuse by calling for stronger checks and balances—especially since the regulations would

go far beyond the anemic reforms adopted by Nasdaq last month. That has shareholder activists and governance experts heaping on the praise: "My basic reaction is surprise and delight," says shareholder activist Nell Minow.

Perhaps the single greatest surprise is how deeply the NYSE dug into the inner workings of key board committees. The new standards would require audit committees to be chaired by directors with financial expertise. And the panels would have to meet—separately and at least every quarter—with management, internal auditors, and independent auditors. That's a minimum of 12 meetings a year. The audit panel of Johnson & Johnson's board, one of the best in Corporate America, met only four times last year.

Many of the proposed changes are long overdue. After years of complaints about management-heavy boards, the exchange now wants outsiders to make up a majority of directors. Its current standard requires only three independent directors—even though "best practice" guidelines have long urged otherwise.

None of these reforms can guarantee that directors will always put shareholders' interests first. The exchange also must resist efforts to water down the rules during a two-month comment period before they're passed on to the SEC for approval. If enacted, virtually all these standards would take effect immediately. But just proposing them puts Corporate America on the road to restoring trust; implementation would help to rebuild confidence in U.S. financial markets. The new rules might even make real directors out of those decorative ornaments.

Senior Writer Byrne writes on management and governance issues.

GETTING TOUGH ON CORPORATE GOVERNANCE

The New York Stock Exchange is proposing major changes in its listing standards. They include:

Data: New York Stock Exchange

► Annual evaluations of the board's nominating, compensation, and audit committees

► Shareholder votes on all stock option plans

► A lead director or nonexecutive chair

to preside over independent board member sessions

► Regularly scheduled board meetings of independent directors

► Prompt disclosure of waivers of ethics

and business codes for executives and directors

► An audit committee chairman with expertise in accounting or financial management

RICHARD GRASSO



COURT DATE

Kozlowski (left) is charged with tax evasion. DA Morgenthau (above) with a photo of a Mone

FINANCE

CAN TYCO SURVIVE THE CEO'S MATH?

Its problems will worsen if CIT triggers a huge writedown

As case No. 63, indictment 3418, was called before New York Supreme Court Judge Arlene Goldberg on June 4, it was easy to pick the defendant out from the petty criminals also in appearance. L. Dennis Kozlowski was the one in the blue suit and tie—standard dress for a man who made \$332 million over the past three years running Tyco International Ltd.

Despite allegations by Manhattan District Attorney Robert M. Morgenthau that Kozlowski may have used funds from a Tyco executive-loan program to buy several paintings, company officials insisted that CEO Kozlowski's resignation just before his criminal indictment on charges that he evaded New York taxes on his art purchases was strictly "personal." But Tyco is still stuck with Kozlowski's troubling legacy: the aggressive accounting he used to supercharge growth. With Tyco shares down over 70% this year, the question is whether interim CEO John F. Fort III and his board can reverse the slide before Tyco faces a liquidity crisis.

Tyco executives argue that their re-

structuring plans are on track. Still, the coming weeks could shape up as a desperate race to stabilize the company. Tyco must try to avert a massive writedown of the bloated \$34.5 billion worth of goodwill on its balance sheet. Such a writedown would reflect the fact that many of Tyco's assets are now worth far less than what Kozlowski paid during his bull-market acquisition binge. And a big write-off could put Tyco in violation of its debt covenants.

Amidst all this, Fort is likely to have an even harder time finding a buyer for Tyco's huge finance unit, CIT Group Inc. Plus, the board—packed with Kozlowski's long-term associates—must find a CEO to restore integrity. "Current management has pretty much lost their credibility," complains David Dreman, CEO of Dreman Value Management LLC, which owns more than 6 mil-

lion shares. Rob Plaza, an analyst at Morningstar Inc., believes that if the CIT sale goes badly, "there is a very real risk of a Chapter 11 filing."

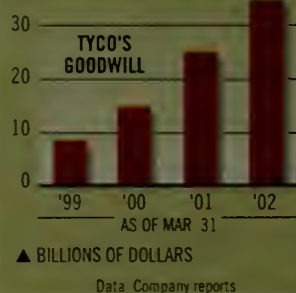
Tyco Executive Vice-President Brad McGee argues that Tyco has the wherewithal to handle its \$27.4 billion debt load. "The concept of Chapter 11 is very remote," he says. But critics worry that will no longer be the case if Tyco is forced to take a huge haircut on the value of its assets. Since mid-2000, Tyco has spent some \$24 billion on acquisitions. The amount of goodwill on Tyco's balance sheet, meanwhile, grew from \$13.7 billion in September, 2000, to \$33.5 billion on Mar. 31—a rise of \$20.8 billion. In other words, Tyco spent \$24 billion on companies it deemed to have less than \$4 billion in tangible value.

Abraham J. Briloff, an accounting professor emeritus at Baruch College in New York, argues that Tyco's accounting was clearly designed to produce "extraordinary earnings growth." Why? Since most of Tyco's growth came through acquisitions, most of the cost

of buying this growth was booked to the balance sheet in the form of goodwill, he says.

In part, that's because Tyco massively overpaid for the companies it bought. But what sets Tyco apart from other acquirers is that it also directed newly acquired companies to take big writedowns before the deals closed. That further increased the va-

A WRITE-OFF IN THE WINGS?



ue that was attributable to goodwill—and in some cases helped springload earnings. CIT, for instance, generated \$252.5 million in net income during its first four months with Tyco—three times what it earned during its last five months of independence. Tyco says its accounting was appropriate and that the charges were warranted.

The problem is, with the ine in Tyco's stock, the goodwill it recorded on its books is clearly valued. Now, under new account-rules, it must write down that "im-ed" goodwill to reflect its true cur-value. But in doing so, Tyco must careful not to trigger its debt nants, which require that debt-to-to-capital rise no higher than 52.5% at 45% now.

McGee denies there's a problem. er than CIT, "the goodwill on our ts is more than supported by the e of our businesses," he says. But s is a big issue. If Tyco can't sell CIT has to spin it off to shareholders, example, it will have to write off its re \$11.3 billion investment—which ld bring it perilously close to trig-ning the covenants. Moreover, Tyco have to take a big writedown of industrial businesses, too. "Given facts that they used stock to make isitions and that their stock is now n almost 75%, goodwill is clearly ired," argues Albert J. Meyer, an yst at short-seller David W. Tice ssociates Inc.

he most immediate challenge for is to sell CIT. In late April, Ko-ski predicted that he would raise billion in a CIT public offering—gh to resolve the liquidity concerns. ever, that price was undercut by of Tyco's own bankers, Lehman chers Inc., when it withdrew a \$5 on bid on May 24.

ow, many commercial-finance comes believe an IPO won't fly at all. a result, Tyco could get as little as illion selling CIT to an outside buyer, Nicholas P. Heymann, an analyst at dential Securities Inc. Spinning it o shareholders for no cash would be faster—and not just because of the edown. By Tyco's own calculations, eels to raise at least \$3 billion to r the \$8.9 billion worth of debt com- through next March. Kozlowski be gone, but the problems he has bld are getting worse.

y William C. Symonds in Boston,
N te Byrnes in New York

QWEST: TRYING TO STAY LIQUID IN A DRY SEASON

The telecom giant needs cash to save its fiber-optics biz

On June 4, when Denver-based Qwest Communications International Inc. gathered its shareholders at a branch office in Dublin, Ohio, Chairman Joseph P. Nacchio found himself in the crosshairs. One after another, angry shareholders rose to vilify Nacchio for Qwest's flagging earnings and his lavish executive compensation package—not to mention investigations by the Securities & Exchange Commission into alleged accounting gimmicks. The remedy, in the minds of many: Nacchio should go.

But the 52-year-old former AT&T exec, known for his combative nature, hardly looks like he's preparing to leave. To avoid bankruptcy, Nacchio has put Qwest's lucrative Yellow Pages business on the block. The Yellow Pages were part of a June, 2000, deal to merge with local telephone giant US West Inc. in a deal then valued at \$46 billion. And more sales of former US West assets may be coming, including the company's wireless business and some of its rural telephone lines. By making these divestitures, Nacchio is betting the asset sales will buy him enough time and liquidity to turn around Qwest's money-losing fiber-optic network and transform it into a growing business.

That's a radical bet these days, as investors, distressed over an 85% decline in Qwest's share price in the past year, have all but given up hope. Their experience has been mirrored throughout the telecom sector, with its vast excess capacity of fiber-optic networks. "We see minimal growth opportunities for this business over the next few years," says Lehman Brothers Inc. telecom analyst Blake Bath. He thinks Nacchio's best bet would simply be to merge Qwest with another fiber-optic network or a Baby Bell.

That's the furthest thing from Nacchio's mind. He has continued to build out his fiber-optic systems, which provide high-speed Internet access and other services to large companies. That has doubled the company's debt, to \$26.5 billion, over the past three years,

even as sales of many of its services shrank. With pricing cut to the bone because of sluggish demand for corporate data services, Qwest's fiber-optic network revenues are expected to fall 20% this year, to \$4 billion. Losses should top \$400 million. Overall, the company is still seen generating \$6.4 billion in cash flow, but interest on debt and capital expenditures should eat up nearly all of it. And \$3.4 billion in bank debt that will come due next May could prove tough to refinance.

Moreover, though Qwest's network is largely complete, it still needs to spend about \$500 million to maintain the facilities and add new customers. "In order for them to continue as an ongoing business, they have to [invest] an enormous amount on capital spending," notes Paul Wright, a telecom analyst at Loomis Sayles & Co. in Boston. "I don't see how they are going to do it."

Nacchio's answer: Sell big chunks of US West to raise the cash he needs. When Qwest merged with US West, Nacchio was criticized for diluting the fast-growing revenue stream



of the fiber-optic network business with the slower-growing local phone business. Now, US West is Nacchio's lifeline. The Yellow Pages operation is expected to fetch \$8 billion, while Qwest's wireless business could bring upwards of \$2 billion. Selling 10% of the company's 17 million local phone lines could generate \$2 billion to \$3 billion more.

Will that be enough? Despite a roomful of angry investors, Nacchio is sticking to his guns. He had better hope they give him enough time to prove he's right.

By Christopher Palmeri in
Los Angeles



SOFTWARE

A PLAGUE OF STUFF ON THE SHELF

The software glut is so severe—and budgets so slashed—that demand may pick up only slowly this year

Nothing bothers John J. Doucette more than wasted money. The chief information officer at United Technologies Corp., parent company to Otis Elevator and Pratt & Whitney, put his department on a diet 18 months ago. One of his biggest chores: reeling in excessive software contracts. In a matter of months, UTC had cut the number of extra software licenses it bought from back-office software maker SAP to 3,500, from 10,000. "All of us are trying to run our

businesses much smarter, using more intellectual capital and fewer hard assets," says Doucette.

Uh-oh. Yet another headache to dampen prospects for a tech industry recovery? You bet. Industry pundits call this one "shelfware"—unused disks and programs gathering dust on company shelves or lying dormant on hard drives. With the excess goods sitting in customers' laps, it's the flip side of the inventory woes that vexed hardware makers last year.

After being whipped into a buying frenzy by Y2K, fear of competition

from the dot-coms, and aggressive counts dangled by software vendors themselves, many customers now they have way too much software. In fact, only half the corporate software purchased since 1998 is currently in use, according to AMR Research Inc. Moreover, the phenomenon is industry-wide, with big players like Oracle, SAP, and Microsoft among the vulnerable. Analysts say it could take a year on average for their customers to make use of the excess or write it off. "A lot of us were saying last year that the good news was there's no inventory problem in software," says Merrill Lynch analyst S. Milunovich. "Turns out there is."

The excess could compound troubles for software makers already grappling with customers' much tighter technology budgets. Sure, the Goldman Sachs Software Index ticked up 4% over two days as Oracle calmed fears on June 5th that it would issue a quarterly profit warning. But the index remains just 6% above its 52-week low. And after churning double-digit growth rates for the past straight years, the industry grew a meager 1.9%, to \$81.1 billion, in 2001, according to Gartner Inc. Although this year's growth rate is expected to creep back up to 5.7%, that's still not much. Analysts worry that an abundance of software ready in customers' hands could slow down purchases and further delay a strong recovery for the industry. On June 3, Lehman Brothers and UBS Warburg both lowered second- and third-quarter sales and earnings estimates for a swath of software makers.

To be sure, shelfware isn't a brand-new problem. Programs have often ended up unused when companies changed strategy or grew dissatisfied. But the shelfware burden has grown because of the flurry of software bought during the late 1990s and 2000.

Still, don't cry too hard for the software makers. Aggressive sales tactics, which include slashing prices on software that customers may not use for several quarters—are at the heart of the problem. By selling customers licenses

for software they don't need, software makers get immediate revenue. But in the process, they sap the demand. A May Merrill Lynch survey of corporate tech buyers found that one-third of those saddled with shelfware are reluctant to start buying again.

The impact is being felt throughout the



Your passion.



Perfected.

Product shown is the AR-C150 ©2002 Sharp Electronics Corporation

Digital Color Copier/Printer
True-to-life color
High speed output
Office user friendly

Where technology and creativity converge. Whether you're designing new fashion lines or creating eye-catching proposals, Sharp has the digital color solutions that bring big ideas to life. Sharp's Color IMAGER Series features advanced copier/printers that connect to your desktop to deliver rich, vibrant color, reliably and affordably. The closest thing to perfection, for those who demand nothing less. sharpusa.com

SHARP | be sharp™

dustry. The percentage of corporations looking to buy enterprise-resource-planning software, which does everything from analyzing financial data to tracking orders, plunged to 20% this year, according to Forrester Research Inc. That's down from 51% in 2001. Equally hard-hit has been software that helps companies arrange and analyze data, often called OLAP (Online Analytical Processing) programs. As much as 60% of some vendors' products wind up as shelfware, ac-

cording to market researcher *The OLAP Report*. "Shelfware is a reality," says Robert M. Dutkowsky, CEO of software maker J.D. Edwards & Co.

The budget constraints most companies now live under aren't helping either. In better times, customers might be replacing shelfware with new applications to boost their productivity, but now they can't afford to. And those that might have begun adding software in anticipation of future growth are finding that

what they've got is more than enough. Employees are laid off and new hires postponed. "The average company dropped 10% to 20% of its population so there's probably 10% to 20% excess software capacity," says Forrester analyst Laurie M. Orlov. A glut like that could easily extend the software industry hangover well into next year.

By Ben Elgin in San Mateo, Calif., with Jim Kerstetter in San Mateo and Diane Brady in New York

ORACLE: WHEN STRONG-ARM TACTICS BACKFIRE

When a California state auditor alleged in an Apr. 16 report that Oracle Corp. had talked the state into spending \$41 million more than it needed to on software, it looked like the latest in a string of complaints, from strong-arm sales tactics and buggy software to poor service. But despite the political storm caused by the contract and the pile-up of problems facing Oracle, CEO Lawrence J. Ellison hardly seems down. Indeed, when he announced on June 5 that the company should meet analysts' profit estimates for the fiscal fourth quarter closing May 31, investors promptly bumped Oracle shares up 11%.

Does this mean Oracle, after its worst fiscal year in a decade, is turning a corner? Not quite. Investors, who had worried that it wouldn't meet much-reduced estimates, were relieved, but Oracle still faces a wicked combination of lousy demand and saturation in its core market, not to mention a host of customers who

ELLISON: *Many of his software customers are hopping mad*

aren't sure whether they can trust this famously aggressive company. And Oracle's strategy for getting out of this mess, giving discounts that analysts say reach 70% to get customers to ante up for more, may just be robbing Peter to pay Paul.

The turmoil shows in the numbers. Fiscal 2002 operating income is expected to fall to \$2.1 billion, down 44.7% from last year. Meanwhile, Oracle's database market share fell 4.9% last year, according to researcher Gartner Inc., as Microsoft and IBM invaded its turf.

Oracle's biggest problem may be customer reaction to its tough tactics. When the Redwood Shores (Calif.) company told Kevin Carracher, director of IT infrastructure management at RoadwayExpress Inc., that his company owed \$2 million for software he thought he had paid for, he laughed in disbelief. "Oracle really needs to consider the market these days," he says. "There are alternatives."

Oracle says it's doing its best to respond to criticism. In March, it named Senior Vice-President Mark Barrenechea to head a group to trouble-shoot customer complaints. And an Oracle spokesman says Carracher's gripe is a misunderstanding. "He doesn't have to pay that bill," says Jim Finn.

But Carracher isn't the only one complaining. Market researcher META Group Inc. says it has heard from 39 Oracle customers that had similar

bill disputes. And it's not just corporate customers. Government agencies which account for 20% of Oracle's revenue, are also up in arms. The state of Ohio and the city of Toronto complain that they, like California, bought more than they needed.

Yet Oracle's practice of luring customers with steep discounts may not be the answer. For starters, it could encourage happy customers to put pressure on it. "[Oracle's trouble] does

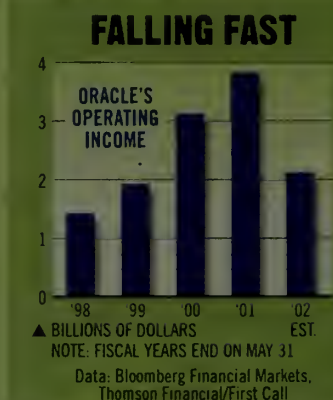
make us a little more aggressive," says Tom Herbert, head of the Montana Information Services Div.

Analysts also worry that while the price breaks get Oracle closer to its short-term revenue targets, they're likely to hurt down the road if customers buy software now and salt it away rather than pay full

price later. A May survey of large Oracle customers by Morgan Stanley Dean Witter & Co. found one-third believe they have more licenses than they need. It will take 18 to 24 months to work that off, says Morgan Stanley analyst Charles Phillips.

Granted, it's not Oracle's job to dissuade customers from buying too much software. But given its faltering credibility, Oracle must be careful. Carracher, for one, is still angry. "It's still going to cost me more than I want to spend," he says. "A dollar is more than I want to spend." Unless Oracle fixes what ails it, that may be all Carracher spends on it for some time to come.

By Jim Kerstetter in San Mateo, Calif.



interestingSM

If you can picture the good life, you're likely to find it at a Renaissance hotel. Watch your ball nestle softly on a breathtaking fairway, discover a new taste sensation, or simply relax and let your wish be our command. It's not a fantasy. It's your weekend getaway. And if you book soon, you can experience Renaissance at a special weekend rate.



RENAISSANCE[®] HOTELS

\$59-\$89 weekend rates if reserved by June 28

Book now for our Come Out & PlaySM weekend rates, good through Labor Day. You must book by June 28th.

Call your travel agent or 1-800-840-3880 or visit renaissancehotels.com



Limited offer at participating locations. Not applicable to groups of ten rooms or more. Other restrictions may apply. Rates up to \$129/night, weekends and/or weekdays, at select city and resort locations. Day of week availability may vary. ©Marriott International, Inc. 2002

COMMENTARY

By Pete Engardio

BONO AND O'NEILL: WHO'S RIGHT ON FOREIGN AID?

Hand it to Bono and Paul H. O'Neill. With their 12-day Odd Couple tour of Africa in late May, the hip, anti-Establishment Irish rocker and the staid, Republican Treasury Secretary generated some of the widest media coverage of global poverty in years. It helped that the pair provided a steady story line by publicly airing their differences at each stop. Bono insisted that more foreign aid is urgently needed to lift Africa out of desperate poverty. And O'Neill kept hammering on the need for aid agencies and Third World nations to make better use of the billions already at their disposal and promote market-driven growth before showering them with new money.

So who's right? In part, both are. It can't be denied that, as O'Neill says, a huge portion of the aid poured into developing nations over the past five decades has done little to reduce poverty or promote sustainable economic growth. The examples of waste, corruption, and ill-advised projects in Africa and elsewhere in the developing world are legion. And by and large, the bureaucracies of international aid agencies remain more fixated on boosting their budgets than on ensuring their projects get results.

That said, even the best economic policies won't make a difference when huge portions of the poor have no access to basic health care, education, and rural development projects. And Bono is right that most African govern-

ments cannot meet this need without more outside help—especially when up to 30% of their export earnings go to service staggering foreign debts. Yet rich nations have slashed their funding for such programs for the past decade.

What's more, there is abundant evidence that smart aid projects can achieve dramatic results, when combined with good macroeconomic policies and aggressive social programs. O'Neill got a close-up view of such progress while touring Uganda. While incomes still average just \$300 a year, Uganda has made great strides since the bloody days of turmoil under strongmen Idi Amin and Milton Obote in the '70s and '80s. In

the past decade, the poverty rate has dropped from 56% to 35% and the spread of AIDS has been contained. The credit goes largely to the Ugandans and their wise use of Western aid. The World Bank and International Monetary Fund also played a huge role by forgiving debt payments. That has freed \$90 million an-

nually that now goes into services like education and health care.

Seeing the benefits of aid up close seemed to make a deep impression on O'Neill. Earlier this year, he railed against calls for more foreign aid. But in Ethiopia, O'Neill said: "Programs are working, aid is helping, and standards of living are improving." In an interview, he described how he was profoundly moved after visiting AIDS victims in Uganda and an orphanage in an Ethiopian village.

Bono also has acquired a more nuanced view of poverty's root causes. While he still emphasizes philanthropy and debt forgiveness, the singer, once a fixture at anti-globalization rallies, now calls for "fair trade" and opening Western agriculture and textile markets to poor nations.

Both O'Neill and Bono deserve credit for touring Africa with open minds—and both should apply what they learned. They are realizing what experts have long known: There are no simple cures for hardcore poverty. The causes are complex and multidimensional.

Both O'Neill and Bono deserve credit for touring Africa with open minds—and both should apply what they learned. They are realizing what experts have long known: There are no simple cures for hardcore poverty. The causes are complex and multidimensional.

But O'Neill is in a position to do the most. He needs to back up his good intentions with more U.S. funds for the health-care, education, and development programs that work. The Bush Administration's promise to boost antipoverty help by \$5 billion annually is a start, but new funds won't flow until 2004. Why not sooner? If O'Neill is serious, he'll make sure his eye-opening tour of Africa grows into something more than a colorful PR exercise.

With Declan Walsh in Kampala, Uganda

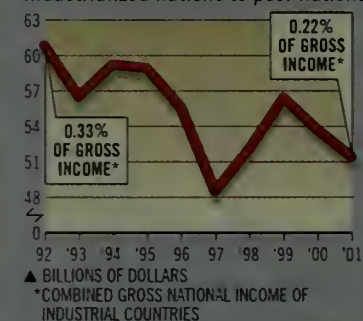


GHANA VILLAGE

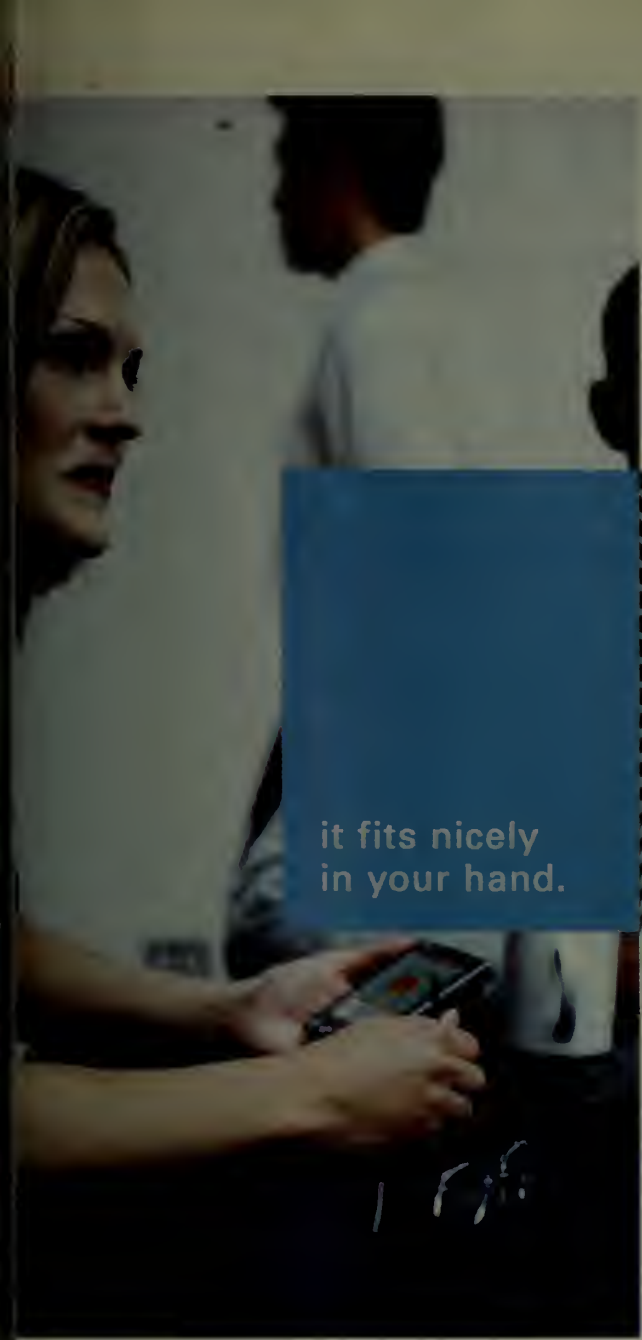
Both men deserve credit for bringing open minds on their tour of Africa

MAKING DO WITH LESS

Annual development assistance from industrialized nations to poor nations



Data: Organization for Economic Cooperation & Development



it fits nicely
in your hand.



and your
company's
backbone.

It's a smart tool to use. And with it, Palm is helping businesses find key solutions for their enterprise. Solutions like mobilizing a sales force. Or streamlining orders. Or providing quick access to information. Along with solutions providers that include BEA, IBM,

McKesson, and Siebel Systems, Palm delivers mobile solutions that fit easily into any business. For more on how we've helped deliver results, visit palm.com/enterprise and read our customer success stories and total cost of ownership white paper.



EDITED BY MONICA ROMAN

REMEDIAL CASH FOR EDISON SCHOOLS

EMBATTLED EDISON SCHOOLS, the nation's No. 1 operator of for-profit schools, secured a crucial lifeline on June 4 when Merrill Lynch and Chelsey Capital agreed to provide it with \$40 million in fresh funding. Without it, Edison would have had to pull out of the nation's biggest experiment in school privatization, scheduled to start in Philadelphia this fall. Edison will use most of the money to take over 20 deeply troubled public schools it will operate. Despite the infusion, Edison—which has yet to make a profit in its 10 years—still must prove it is a viable business.

IN DETROIT, A LONG, SLOW SUMMER?

JUST WHEN IT LOOKED LIKE auto sales were going to surge beyond expectations

CLOSING BELL

ZAP!

Shares of Perot Systems fell 19.1%, to \$14.55, on June 5 after California State Senator Joseph Dunn (D) alleged the Plano (Tex.)-based technology services company aided power companies in manipulating energy prices in the state. Perot Systems, whose founder and chairman is H. Ross Perot, denies the allegations.



this year, car buyers stalled out in May. Industry sales tumbled 6% last month, with General Motors and Ford taking the worst hit, each with a 12% decline. Analysts say strong sales in the first quarter may have cannibalized demand in the second quarter. Consumers may also be balking at new charges for options that once were standard on cars. So expect GM and Ford to continue spending on incentives to regain market share. Although GM has vowed to hold its stake of the U.S. market at 28%, it fell to 26% in May.

KEEPING AN EYE ON FANNIE AND FREDDIE

IN A BID TO ENHANCE ITS oversight of Fannie Mae and Freddie Mac, the federal agency that regulates the mortgage-finance companies set new corporate governance standards for them. The Office of Federal Housing Enterprise Oversight is insisting that Fannie and Freddie must establish audit and compensation committees for their boards of directors, comply with the New York Stock Exchange's audit rules, and maintain written conflict-of-interest standards. Since Fannie and Freddie already do some of the things the new standards require, the companies said they were generally "comfortable" with most of its provisions.

FERC BRANDISHES THE BIG STICK

FEDERAL ENERGY REGULATORY Commission Chairman Patrick Wood III upped the ante in his investigation into the possible manipulation of Western energy markets. In an unexpectedly aggressive move, FERC issued an order threatening to take away the right to charge market-based rates

HEADLINER: BARRY DILLER

SEE BARRY SHOP

Barry Diller's USA Interactive just keeps on buying. Less than a week after agreeing to pay \$578 million in cash and stock for time-share company Interval International, Diller offered \$4.5 billion to buy the minority stakes that USA Interactive doesn't already own in Expedia, Ticketmaster, and Hotels.com.

The bids are part of Diller's strategy to become a bigger player in the TV and online shopping, ticketing, and travel businesses. The company currently runs the Home Shopping Network, and earlier this year launched a Travel

Channel on cable to link its travel Web sites. USA Ticketmaster is already selling theater tickets to consumers who book travel on Expedia. The offers, valued at a 7.5% premium over the individual companies' stock prices on May 3, could still be rebuffed by the public companies.

And Diller is unlikely to stop buying. With \$3.5 billion in cash and securities following the sale of USA's TV studio to Vivendi Universal, Diller has a wallet that he says he will use to build the company through acquisitions.

Ronald Groves

from four energy traders unless they provide the agency with details of their trading activity in 2000 and 2001. The companies cited by FERC—El Paso Electric, Portland General Electric, Avista, and Williams Energy Marketing & Trading—are expected to comply with the agency's request within the required 10-day period. FERC's move was perceived as a response to pressure from California Democrats and others who fault Enron and fellow energy traders for their state's rolling power shortages two years ago.

A PHILIP MORRIS APPEAL STUBBED OUT

THE WEST COAST SUN RARELY shines for tobacco companies—and on June 5, the industry's biggest player, Philip Morris, was dealt another setback there. The Oregon Court of Appeals rejected the

company's appeal of a 1999 verdict in the death of a long Marlboro smoker. Judge Williams, reinstating a \$7 million punitive jury verdict, said Philip Morris immediately said it would appeal. Supporters noted that despite setbacks in Oregon and California, tobacco companies have won the majority of similar cases in other regions. "There's a pocket of a problem you can't ignore," said Salomon Smith Barney analyst Bonnie Herzog, who is maintaining her "buy" rating on the stock.

ET CETERA...

- General Motors Chairman Jack Smith plans to retire next year at age 65.
- Coca-Cola is paying \$1 million to rename Enron Field for Minute Maid orange juice.
- Dell Computer's board authorized the buyback of \$1 million more shares.

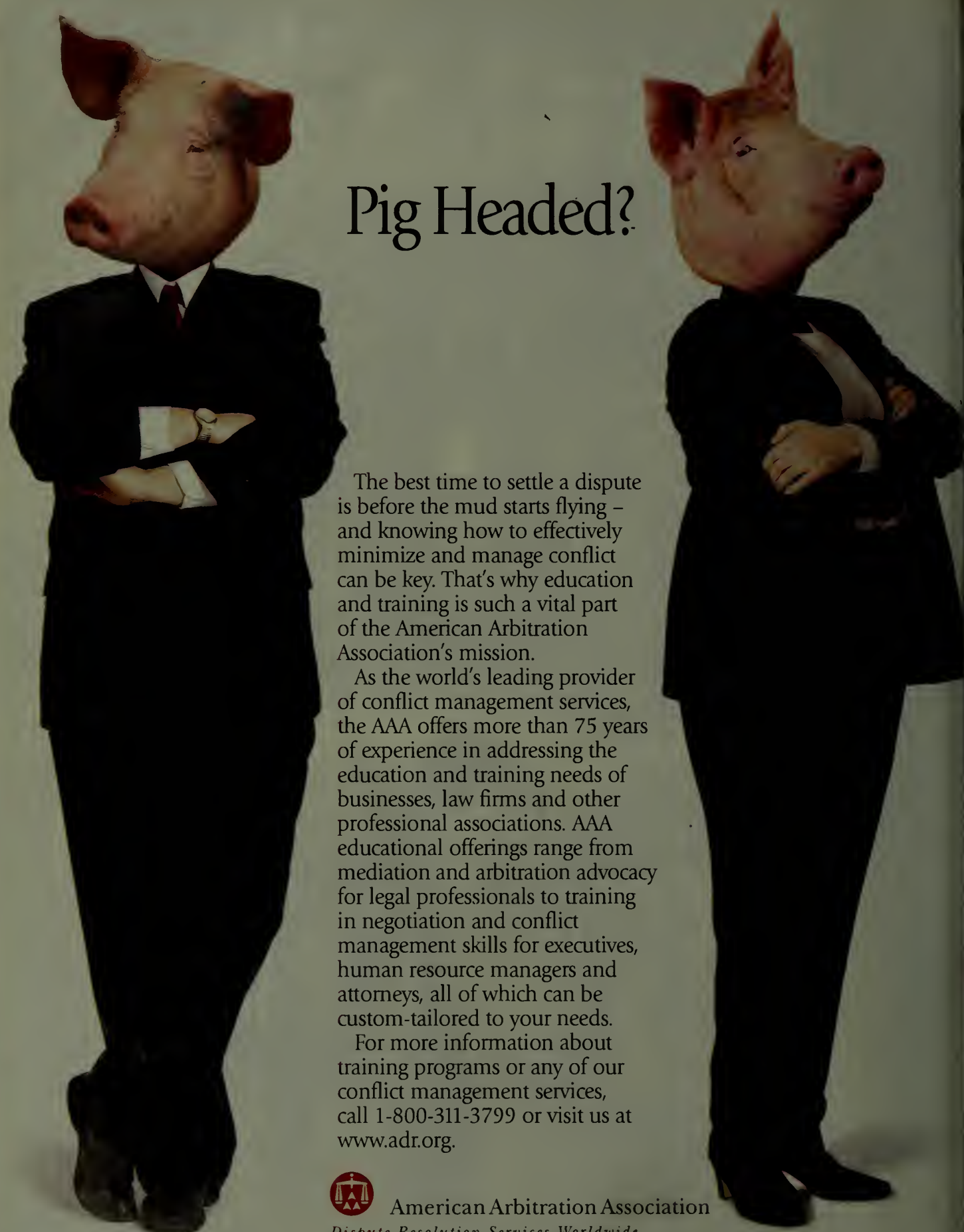


GET THE FEELING. TOYOTA.
toyota.com



THE RESTYLED 2003 TOYOTA AVALON. WITH A CAR THIS LUXURIOUS, ONLY ONE QUESTION REMAINS — SPARKLING OR STILL?

©2002 TOYOTA MOTOR SALES, U.S.A., INC. BUCKLE UP! DO IT FOR THOSE WHO LOVE YOU.



Pig Headed?

The best time to settle a dispute is before the mud starts flying – and knowing how to effectively minimize and manage conflict can be key. That's why education and training is such a vital part of the American Arbitration Association's mission.

As the world's leading provider of conflict management services, the AAA offers more than 75 years of experience in addressing the education and training needs of businesses, law firms and other professional associations. AAA educational offerings range from mediation and arbitration advocacy for legal professionals to training in negotiation and conflict management skills for executives, human resource managers and attorneys, all of which can be custom-tailored to your needs.

For more information about training programs or any of our conflict management services, call 1-800-311-3799 or visit us at www.adr.org.



American Arbitration Association

Dispute Resolution Services Worldwide

BY RICHARD S. DUNHAM

HOW MUCH HEAT CAN ASHCROFT TAKE?

Amid growing speculation that the FBI's top brass ignored warnings about terrorist plans prior to al Qaeda's September 11 attacks, Attorney General John Ashcroft on May 30 responded as only he knows how: by brandishing the Even Bigger Stick. Ashcroft's Justice Dept. issued a sweeping array of measures designed to strengthen the beleaguered bureau's investigative powers. Chief among them: a directive that gives the FBI unprecedented leeway to listen—or barge in—on suspected radicals.

Liberals reacted with predictable outrage, branding the moves a naked assault on civil liberties. Less predictable was the fiery response of conservative House Judiciary Committee chairman F. James Sensenbrenner Jr., who blasted Justice for trashing long-standing policies without consulting Congress. The Wisconsin Republican, who has a rep as a man with a long memory, “is not somebody you want to turn off,” says American Conservative Union chairman David A. Keene. “The Attorney General should have known better.”

That's Ashcroft's life these days: He's caught in a Left-Right crossfire and often hands foes more ammo. For 16 months, the nation's top cop has played the role of George W. Bush's lightning rod. GOP operatives are delighted that Democratic liberals and civil libertarians have directed their ire at Ashcroft rather than commissionate conservative George W. “He gets very good marks as a heat shield,” says Tom Cole, former chief of staff for the Republican National Committee.

As Ronald Reagan discovered with controversial Attorney General Edwin Meese III, conservative Justice Dept. heads can serve a purpose by absorbing political shots intended for the President. But the body armor only lasts so long, and at the rate Ashcroft is drawing fire, there is reason to begin questioning his staying power in the Bush war Cabinet.

For one thing, there is mounting evidence that the AG is losing ground among swing voters. While 56% of Americans gave Ashcroft positive marks in a May 15-21 Harris Poll, his approval rating among both moderates and independents dropped to 52%, down 10 points among centrists since January.

If the trend continues, it could set off alarm bells at the White House, where Ashcroft is considered a team player and a political asset. His strong opposition to gun control and abortion resonate with the GOP's social conservative base.

And business interests applauded Justice's decision to settle the Microsoft antitrust case.

However, a series of missteps has caused even a few conservatives to question the ex-Missouri senator's management ability and fondness for Big Government solutions to the terrorist threat. In recent months, five court decisions have nullified various Ashcroft anti-terrorism policies. And some police departments have protested Justice's plan to have local cops detain illegal immigrants.

Then there's Ashcroft's attempt to transform the FBI into a counter-terrorism organization. Washington-watchers wonder whether he can change the FBI's insular culture and its reputation for infighting. Brookings Institution scholar Stephen Hess likens Ashcroft's plight to one faced a century ago by President Theodore Roosevelt with his rambunctious daughter Alice.

“Teddy said he couldn't both run the country and run Alice Roosevelt,” Hess recalls. “It seems that Ashcroft can run either the FBI or Justice, because you can't do both.”

Despite the furor, the White House says it remains firmly behind Ashcroft. And the AG's anti-terrorism measures are backed by a frightened populace. In wartime, says St. Mary's University political scientist Andy Hernandez, “civil liberties will always lose to security.” Still, if Bush gets burned by the fires at Justice, it might be time for a new heat shield. ■



ASHCROFT: *Lightning rod*

CAPITAL WRAPUP

JIM JEFFORDS, SUPERSTAR

► One of the hottest Democratic draws on the campaign trail isn't even a Democrat. He's Republican-turned-Independent Senator James M. Jeffords of Vermont. Already, Jeffords has headlined events for endangered Dem incumbents Paul D. Wellstone (Minn.) and Jean Carnahan (Mo.). He even traveled to the President's home state to raise money for Democrat Ron Kirk in a closely contested open-seat race. Jeffords draws the line at campaigning against GOP incumbents.

KENNEDY'S END RUN

► From education to health care, Senator Ted Kennedy (D-Mass.) has a history of cutting deals with Republicans. His latest: giving small business up to \$30 billion in tax breaks in exchange for a \$1.50 increase in the \$5.15 minimum wage. By doing so, Kennedy has called the bluff of corporate lobbyists who demanded goodies in return for any minimum-pay hike. Small-business reps remain skeptical that the Kennedy tax cuts would offset higher wage costs.

YES, WE HAVE NO SURPLUS

► The Administration will acknowledge in its midyear budget update what economists have been predicting for nearly a year: There will be no surpluses through the end of President Bush's first term. The White House budget review, due within a month, will project deficits until fiscal 2005, when modest surpluses could return. The Senate Budget Committee's GOP staff projects a \$137 billion deficit for fiscal 2002. Last year, the surplus was \$127 billion.

a data center. Suddenly, you're concerned with profitability. Business forecasting. They even want recommendations on system performance over in marketing.

Is your software up to the challenge?

This, of course, is why HP has evolved OpenView software from a network management tool into a sophisticated service management solution—covering everything from networks, storage and systems to services like ERP, e-commerce and call center management. Basically, the entire infrastructure on which your core business services depend.

So in addition to managing your infrastructure, HP OpenView now anticipates and resolves problems according to your organization's priorities—by department, service, even line of business.

Increased efficiency. Lowered costs. Higher ROI. Being proactive with recommendations. That's what's expected of you. And what you can expect from HP OpenView management software.

HP infrastructure solutions are engineered for the real world of business. Because the last time we checked, that's where we all work. To learn more about how HP OpenView Management software can help run your business, call 1.800.HPASKME, ext. 246. Or visit us at www.hp.com/go/infrastructure.

Infrastructure: it starts with you.



CHINA

MOTOR NATION

Finally, China's middle classes can afford the family car

For years, Liu Tiantai coveted a car from a foreign auto maker. But the 40-year-old office equipment manager didn't like the limited choice and high sticker price of most joint-venture vehicles. Recently, however, new, affordable models have been appearing almost monthly, and Liu finally took the plunge, buying a Buick Sail SRV for \$13,590. He uses the hatchback to drive to work, to ferry his wife and his 7-year-old son around Beijing, and to carry supplies among his company's many offices. "This is the car I've been longing to get," he says. "It's practical, inexpensive, and very useful for my business."

Liu is at the forefront of a consumer revolution. For years, most cars in China were sold to state institutions and companies, or ended up in taxi fleets. Now that's changing. "The rise of the private car buyer is historic," says Jia Xinguang, an analyst at China National Automotive Industry Development & Consulting Corp. in Beijing. "It will change the whole industry."

It's not just China's car industry that will feel the effects, but the entire global auto business. According to Automotive Resources Asia, a Beijing consultancy, car sales will grow 15% annually over the next few years and could more than double, to 2.5 million, by 2010. Mei Wei Cheng, chairman and chief executive of Ford Motor (China) Ltd., is even more optimistic. He expects Chinese to buy 5 million cars a year by 2010. "Chinese want quality cars with good safety features at an affordable price," he says.

In the coming years, more and more Chinese urbanites such as Liu will buy their first car, especially as prices drop. Until recently, cars were out of the reach of ordinary Chinese, including even members of the new middle class. But as tariffs on imported cars tumble

in the wake of Beijing's accession to the World Trade Organization and a slew of new models come on the market, domestic auto makers are being forced to cut their prices. Adding fuel to the fire, late last year Geely Motor Co. (box), a small private Chinese auto maker, slashed the price of its Haoqing model by 11%, to \$4,700, sparking a price war that has driven down sticker prices 15% since January. Private citizens, armed with hefty savings and aided by a variety of installment plans, are flocking to dealerships.

Policy mandarins know the long-cosseted domestic auto industry must face competition if it is to reform. About 100 state-owned car companies still operate

in China. Most lose money, and Beijing is keen to force them to consolidate. At the same time, the government is giving foreign companies more leeway to choose local partners, introduce new models, and move into distribution and after-sales service. "WTO is giving us

more freedom," says Zhang Suixin, chief representative of Volkswagen China.

That, in turn, is prompting foreign auto makers to up their mainland investments. On June 4, the eve of the Beijing International Auto Show, General Motors Corp. announced it would pay \$30 million for a 34% stake in SAIC-Wuling Automotive Co., a minivan and minitruck producer in southwestern China. GM sees the investment as a way to get traction in a fast-growing niche. Earlier year, Volkswagen announced it would move its Asia-Pacific headquarters from Wolfsburg, Germany, to Beijing. VW also spend \$2.7 billion over the five years developing a new compact building a transmission plant in Shanghai, and upgrading dealerships. For part, Nissan Motor Co. is widely expected to announce a tie-up with Dongfeng Motors, China's third-largest auto maker.

For most of these carmakers, the focus for the next few years will be subcompacts and compacts that sell for \$16,000 or less. GM led the charge with



THE LITTLE CAR COMPANY THAT CAN?

When it came time for Geely Motor Co. to select a name for its newest compact, the auto maker's execs were clearly feeling cheeky, if not downright provocative. They called the 1.3-liter, four-door compact the Ulion, which loosely translated means "better than the Toyota Charade or the Buick Sail," two of the mainland's most popular economy cars. The in-your-face attitude doesn't end there. Bai Yang, Geely's CEO and the only woman running a local carmaker, says her company aims to become the "Toyota of China."

Before you start laughing, consider

how far Geely has come in four years. Geely sold 200 cars in 1998, its first year as a carmaker. This year, it expects to sell more than 60,000 cars, or about 20% of the economy-car market, and to double revenues, to more than \$1 billion. "I like this company," says Yale Zhang of the Beijing consultancy Automotive Resources Asia. "They have a very good future."

Started by Li Shufu, an entrepreneur from Zhejiang province, who still runs the China Geely Group, Geely first made refrigerators, before moving on to motorcycles and cycle parts. In 1997, Li bought



CHECKING OUT A VW

China's WTO entry has helped foreign carmakers

it hasn't been so easy for Volkswagen, the pioneer. Because it was one of the first foreign auto makers in China, VW was forced to farm out its distribution and after-sales service to local partners that proved unprofessional and unmotivated. Over the past two years, VW has begun overhauling its dealer and parts network, bringing in trainers from Germany, installing a database of people who have visited VW promotional events but not bought a car, and allowing test drives—a rarity in China.

This being China, there remain roadblocks. The taxes and fees that municipalities levy on locally made cars can add as much as 50% to the purchase price. Duties on imported cars are still 44% to 51%. Finally, foreign auto makers say Beijing hasn't allowed them to

...ch last year of its 1.6-liter Buick L, with dual front air bags and anti-lock brakes. It is already going bumper-to-bumper with Volkswagen's \$16,000 L and in the coming months will face competition from Toyota's \$12,000 NBC5 L and a 1.6-liter Ford compact.

With all the choice, car buyers can afford to be picky. In fact, Chinese consumers—who are often first-time buyers—often have unreasonably high expectations. That's because they demand the latest global auto trends from a plethora of car magazines, supplements, and TV shows flooding the market. As a result, buyers expect the

newest models with the latest features—all at a low price. And Chinese demand premium after-sales service. In December, a zookeeper in Wuhan took a sledgehammer to a problem-plagued Mercedes that may simply have been suffering the effects of low-octane fuel. Says Philip Murtaugh, chairman and CEO of GM China Inc: "Their expectation of performance and reliability is perfection."

So carmakers are improving service. Even before the Buick Sail went on the market, GM was teaching its salespeople how to move metal and ensuring that sufficient parts were on hand. Ironically,

make car loans, despite its WTO commitment to do so. Only 10% of autos are financed, says GM's Murtaugh.

Even with these hiccups, foreign auto makers are betting that China will continue to open up—including doing away with local taxes and allowing financing. That's because Beijing knows that more reform—and foreign investment—is the only way to build a strong domestic industry. Finally, it seems, China's auto market is reaching highway speed. No wonder foreign car companies are stepping on the gas.

By Dexter Roberts in Beijing, with Alysha Webb in Shanghai

maker of minivans, thereby gaining license to make vehicles.

It hasn't always been easy because Li is Geely's only private auto maker—state banks wouldn't lend it—there are clear benefits. Unlike state-owned companies, Geely can keep its cash by firing inefficient employees. The company is free of the pension costs and debt of its rivals. Moreover, Geely can roll out new models without receiving permission from bureaucrats. The founder's tie to the government is a boon, too; many of China's component makers are located in Zhejiang. Finally, Li is said to have built up large cash reserves from his fridge business—meaning the company has not been short of funding.



NEW CAMPAIGN

CEO Bai says she wants Geely to be the "Toyota of China"

Geely's greatest impact so far: its decision to cut prices 11% late last year, forcing Toyota, VW, GM, and Ford to follow suit. Still, the company has a ways to go. Geely's cars are nothing fancy: The \$10,000 Ulion is based on the outdated Toyota Charade. It's viewed as tinny and shoddy.

Bai is determined to improve quality. She is sending execs to learn from Toyota Motor Corp.—it supplies Geely's engines—and vows to pump \$60 million a year into research and development. A domestic stock listing and a tie-up with a foreign auto maker are in the cards. "Perhaps we could even do a joint venture with Toyota," says Bai coyly. There's that attitude again.

By Dexter Roberts in Ningbo, China

COMMENTARY

By Brian Bremmer

A LITTLE GROWTH: JUST WHAT JAPAN DOESN'T NEED

In Tokyo, the scent of quick money is in the air again. The Nikkei is up 11% this year, more than any other major stock index. Corporate Japan forecasts a 51% jump in profits for the year ending next March. And on June 7, the government was expected to announce that the nation's economy blasted out of the recession in the first quarter and grew at a 7.7% annual clip.

Yes, Japan has freed itself from the grip of a nasty nine-month contraction. The dire predictions of a cascade of major bank failures didn't materialize. Exports to the U.S. and elsewhere in Asia have rebounded. Household spending increased in April for the first time in three months. In addition, Japan is benefiting from a big shift in capital flows away from the U.S. During a two-week period in mid-May, overseas investors steered \$8 billion into the Tokyo Stock Exchange. "We are seeing a big bounce back," says Ian Burden, chief investment officer at Invesco Asset Management Ltd. He thinks the market could rise another 10% this year.

But is this the real deal, the start of a lasting economic recovery? Unfortunately, that's about as likely as Japan winning the World Cup. To begin with, Japan's unreliable economic statistics probably overstated first-quarter growth. Second, the drop in the dollar could depress the modest recovery that actually is happening. In any event, Japan's long-running bank mess will keep a lid on the economy until it finally gets resolved. That's why economists are betting that for the full year, Japan will be lucky to grow even 1%.

In fact, it's easy to argue that the Japanese are getting just what they don't need: enough growth to ease the pressure for reform but not enough for a solid recovery.

So, investors jumping in are likely to be disappointed. For one thing, the earnings estimates look pretty suspect, says Goldman, Sachs & Co. economist Kathy Matsui. Japanese companies are notorious for overestimating expected profits. And about half the expected 51% jump in pretax profits is clustered in the electronics sector, so the earnings recovery won't be broad-based. Matsui also worries about a continued decline in the dollar, which could take the yen from 124 per dollar now to the 115 that is the breakeven point for most exporters. "This

year's earnings recovery," she says, "is enormously dependent on export earnings." Small wonder that the Bank of Japan on May 31 spent about \$10 billion to cool off the yen's recent surge, in one of the biggest currency interventions ever.

The central bank has also been printing money like crazy this year in an effort to end deflation and get people borrowing and spending again. Japan's monetary base is growing at a

blistering 36% annualized rate, a pace not seen in almost 30 years. Usually, such money-supply jumps presage inflation and also a sharp upturn in economic growth. But in Japan deflation continues, as the very big and very ailing banks refuse to lend the money that's being pumped into the system. New loans dropped 5% in April from a year earlier. The banks are weighed down more than ever with bad debts, equaling almost 11% of their loan portfolios. Nikko Salomon Smith Barney economist Jeffrey Young says resolving the problem will "absorb many years of [bank] profits."

Meanwhile, the government is pointing to the budding recovery as proof that its policies are working. Most Japanese are not fooled. "The government is not dealing with the debt problem," says Hiromasa Yonekura, president of Sumitomo Chemical Co. "People are not satisfied." Yonekura advocates a quick bank cleanup and deep tax cuts. Sounds reasonable. What the Japanese will probably get, though, is a botched recovery and more pain down the road.

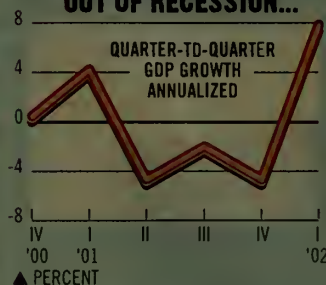
Bremmer covers Japanese finance from Tokyo.

SUSPECT RECOVERY:
Japan's debt woes will dampen expansion



BOUNCING BACK?

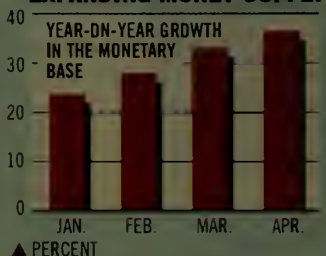
AS JAPAN PULLS OUT OF RECESSION...



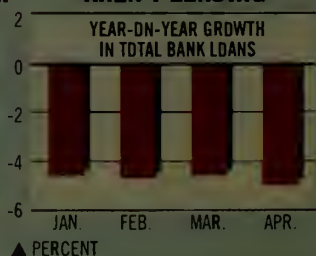
...THE NIKKEI INDEX IS HIGHER...



...YET, DESPITE A RAPIDLY EXPANDING MONEY SUPPLY...



...JAPAN'S SICK BANKS AREN'T LENDING



How can you identify your best ■
(and worst) suppliers?

View your total spend across ■
business lines and geographies?

And make sure your contracts ■
get you the best price?

SAS® is all you need to know.

With SAS Supplier Intelligence, you can identify your best and worst suppliers, view your total spend across business lines and geographies, and make sure your contracts get you the best price. To find out how leading companies are reaping the rewards of SAS supplier intelligence software, call 1 866 270 5724 toll free or visit www.sas.com/supplier.

The Power to Know.

sas.



CHERKIZOVSKY PLANT: Productivity soared 21% in 2001, boosting profit

RUSSIA

A GLEAM OF HOPE FOR RUSSIA INC.

Productivity is exploding, and foreign capital may follow

Peek inside the Cherkizovsky meat-processing plant, and you'll see red sausages streaming from sparkling machines made in Germany. In another wing, turkey and ham are processed and packed into brightly colored, vacuum-sealed packs. Such scenes might seem prosaic in Chicago or Cologne. But in Russia, this is a scene from the economic revolution. Thanks to \$20 million of investment in new product lines and equipment, the Cherkizovsky group, which includes eight other meat-processing plants and chicken farms across Russia, boosted productivity by 21% in 2001. And the modern packaging lets the company charge higher prices. "People are ready to pay more for quality," says Cherkizovsky's president and majority owner, Igor Babayev, 52. Nearly bankrupt in 1998, Cherkizovsky last year notched profits of \$35 million on sales of \$350 million.

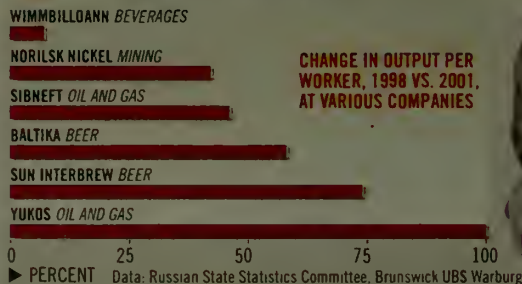
Cherkizovsky is far from unique. Russian industry has ratcheted up productivity gains of 31% since the August, 1998, collapse of the ruble, according to a recent study by Pe-

ter Boone, head of research at Moscow brokerage Brunswick UBS Warburg. That's an astounding record, and one that could help Russia attract the foreign investment it needs.

Even Karl Marx understood that productivity is the crux of capitalism. It's hourly output per worker, and for years before and after the collapse of the Soviet Union, Russia's workers were at the bottom of the league tables. Training was poor, motivation lousy, factories antique. Without better productivity, Russia couldn't generate the extra capital needed for more investment, or produce the returns that would attract outside capital. "Labor productivity and efficiency levels have been Russia's biggest problems since the Soviet era," says Ruben Vardanyan, CEO of Troika Group, a Moscow financial services firm.

Even today, most of the country's plants perform dismally. But at least some Russian executives—mainly owners of privatized companies—are realizing that to make money, you have to spend money. Windfall gains from high oil prices, along with a renewed taste for Russian-made goods after devaluation pushed up the price of imports, have helped CEOs find the dough.

MORE PRODUCTIVE



Leading the pack is Russia's No. 2 producer, Yukos, where productivity doubled since 1998, thanks to a \$1.3 billion investment in new fields and technology. Yukos has cut costs per barrel from \$7 in 1998 to less than a third that. Profits climbed 48% in 2001.

Food processing is not far behind. Since 1998, Russia's leading beer companies, Baltika Brewery and SUN Interbrew, have raised productivity by 55% and 72%. Baltika, majority-owned by Britain's Scottish & Newcastle and Denmark's Carlsberg, spent \$20 million last year on software to improve distribution. Net income grew 54%, to \$128 million. Petrosoyuz Industrial Group of Petersburg has kicked Unilever Group's Rama brand out of the top spot in the market for spreadable butter after buying Western equipment five years ago. Now, H.J. Heinz Co. and Kraft Foods Inc. are talking to a newly profitable Petrosoyuz about a strategic investment.

The biggest productivity gains have been made at privatized companies. Mammoth state-controlled enterprises such as Gazprom and Unified Energy System have been slow to make change. It costs state-run oil company Tatneft \$4.5 to produce a barrel of oil, double what it costs Yukos. Still, more and more Russian managers are getting the message. Consultancy firm McKinsey & Co. has doubled the number of employees in its Moscow office since 1998 to cope with growing demand for advice on how to raise productivity. And boosting productivity means deploying capital. "There will be no further growth without investment," says Christof Ruehl, chief economist at the World Bank in Moscow.

That's a point well understood by President Vladimir Putin. He's doing everything in his power to make Russia more attractive to foreign investors,

including cutting taxes, beefing up closure rules, and lobbying to get Russia accepted in international trade organizations. But the best thing he could do is privatize more state companies—a force them to be productive and earn profits.

By Catherine Belton
in Moscow



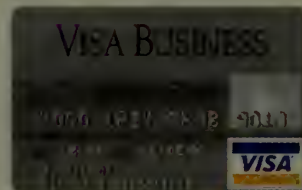


**Visa Business lets
you take control.**

- Flexible Payment Solutions with Visa Business Check Card or Credit Card
- Partner Advantage Business Savings Program
- Management Reports
- Accepted Worldwide

**WHEN YOUR CASH FLOW IS UNDER CONTROL
THERE'S NO TELLING WHAT YOU CAN ACCOMPLISH.**

Visa Business payment solutions may be just what you need. Our products, services and savings will help make your business a success.



It's everywhere you want to be.®

Call **1-800-725-6187** today to apply for the Bank One Visa Platinum Business Card. Please mention offer **A11**.



TWTC

Taipei World Trade Center

You name it, we make it !



Something special waits you at the TWTC

Magic happens every second at the world's largest permanent exhibition center. It resonates down vast rows of glass display cases where your perfect prospect beckons! That's why most of the million-plus visitors who attended trade shows last year maximized their prospects by checking out the *Permanent Trade Mart*. Somewhere in that trade mecca they found that "just right" item sparkling with quality, innovation at astonishing prices.

Your special something is waiting at:

www.TaipeiTradeShows.com.tw

Asia's world trade window



Taipei World Trade Center
www.twtcmart.com.tw

5 Hsin-yi Rd., Sec. 5, Taipei,
Taiwan 110, R.O.C.

Tel: 886-2-2725-1111
Fax: 886-2-2725-1314

Operated by:



China External Trade Development Council (CETRA)
www.taiwantrade.com.tw

EDITED BY ROSE BRADY

AN KARZAI PULL AFGHANISTAN TOGETHER?

When Hamid Karzai was named chairman of Afghanistan's interim government by a U.N.-sponsored conference in Bonn last November, many diplomats and analysts doubted the ethnic Pashtun leader from Kandahar would be able to keep the country from disintegrating into civil war. As Karzai set about forming a 12-month interim government in Kabul, rival warlords and the country continued to fight, and the terrorist threat from vanquished Taliban rulers remained alive.

Yet Karzai, 44, a fluent English speaker who was educated in India, has so far surprised skeptics. On June 10, when 1,500 Afghans from 32 provinces gather on a vacant Kabul soccer field for a Loya Jirga, or Council of Tribal Leaders, they are widely expected to elect Karzai as their leader for the next phase of Afghanistan's transition to democracy. Karzai, whose title will likely be Prime Minister, will head a Cabinet that will govern until Afghanistan's first free elections in 2004.

Despite earlier fears of civil war, most provincial Afghan leaders seem committed to supporting Karzai as head of the new transition government. He has won the support of leaders in several major ethnic groups, including the powerful Tajiks. He is backed by the Northern Alliance, which led the fight against Afghanistan's Taliban rulers. Perhaps his most prominent ally is former king Mohammed Zahir Shah, who returned to his native land recently after 29 years in exile in Italy and may be named head of state by the Loya Jirga. "The central government that emerges will have increased authority and legitimacy," says a Bush Administration official. What diplomats and political observers will be watching for is how effectively a new Karzai administration will be able to consolidate power further and govern the entire nation in the next two years. Currently, the Karzai government's

control doesn't extend far beyond Kabul, where the 5,000-strong International Security Assistance Force and 550 British-trained Afghan troops are based. Regions such as Herat in the west and Mazar-i-Sharif in the north remain in the hands of ethnic leaders who led the anti-Taliban resistance and are reluctant to disband their militias.

To secure their support, Karzai has made alliances with strongmen. Leaders of the Northern Alliance, for example, are backing Karzai because they believe he will help them retain their influence. "If they respect Karzai, they are hoping that he will respect them," says Ahmad Zia Nickbarg, a professor in Kabul University's faculty of social sciences. Although details of a constitution will be worked out over time, the provinces are expected to wield considerable power over their administrative and economic affairs. To ensure the peace, the government is taking steps to train—with Western help—an 80,000-strong army. None of the major warlords is "dedicated to opposing the government," says Barnett R. Rubin, a specialist on Afghanistan at New York University. "They just want to profit from the situation."



KARZAI: Tenuous control

Of course, a new Karzai regime would still face a mammoth job of rebuilding roads and public works wrecked by 23 years of war. That task has barely begun, because only a fraction of the \$1.8 billion pledged by foreign donors has arrived. "The challenge now is to get countries to translate their goodwill statements into real projects," says U.N. Development Programme Deputy Asia Director David Lockwood.

Continued global aid will be vital, well beyond the Loya Jirga. The big tests to this new democracy lie down the road, as the strains of Afghanistan's tortured politics surface.

By Pete Engardio in New York, Manjeet Kripalani in Bombay, and Christian Otton in Kabul, with Stan Crock in Washington

GLOBAL WRAPUP

AFTER FRANCE'S ELECTION

French President Jacques Chirac's center-right coalition, poised to win a comfortable parliamentary majority in elections on June 9 and 16, is already setting its legislative agenda. Chirac's recently appointed Cabinet, headed by Prime Minister Jean-Pierre Raffarin, says it will immediately seek an across-the-board cut in personal income tax rates, with the top rate falling from 52.75% to 50%. And Raffarin wants new tax breaks for businesses that hire young people.

With polls showing that the leftist majority in the 577-seat National Assembly could shrink to fewer than 200 seats, Chirac's forces are signaling changes on labor policy. They plan to relax the 35-hour work week law, and may not raise the minimum wage on July 1, as the Socialists had promised. Bolstering the center-right's confidence, polls predict the far right will likely win no more than four seats.

CANADA'S LEADERSHIP FIGHT

► The stage is set for a fierce battle for the leadership of Canada's govern-

ing Liberal Party. Former Finance Minister Paul Martin, who was fired from the government on June 3, is gearing up to challenge Prime Minister Jean Chrétien as party leader. Martin, 63, whose policies helped turn Canada's massive budget deficit in the mid-1990s into a healthy surplus, has built up a campaign war chest estimated at more than \$10 million. Chrétien ousted him for soliciting donations for a possible leadership bid. Now, Martin is likely to challenge Chrétien, 68, who wants to run for a fourth term, at a party convention in February.

COMMENTARY

By Jack Ewing

WORLD CUP: SPONSORS NEED TO GET IN THE GAME

Joseph "Sepp" Blatter must have been feeling triumphant when he appeared at the opening game of the World Cup in Seoul on May 31. The heads of national soccer associations from around the globe had just reelected him to another four-year term as president of the Zurich-based Fédération Internationale de Football Assn., or FIFA, the organization that oversees arguably the biggest show on earth.

Blatter, accused by members of FIFA's executive committee of bribery and financial mismanagement, had insisted that he was unfairly attacked. Now here was vindication in the form of a 139-56 vote in his favor.

But no one had asked the fans. When Blatter spoke, spectators in Seoul booed and whistled. It was an unexpected and ominous moment not only for the 66-year-old Blatter but also for World Cup sponsors such as McDonald's, Coca-Cola, and Anheuser-Busch, which have invested about \$28 million each.

So far, sponsors have kept to the sidelines as an internal battle roils FIFA. That didn't change even when Blatter's one-time protégé, FIFA General Secretary Michel Zen-Ruffinen, issued a damning report in May. It charged that Blatter sold U.S. broadcast rights for the World Cup to Munich-based KirchMedia for \$220 million and rejected an offer that was \$100 million higher from Lucern-based AIM International, one of a series of questionable moves that have helped push FIFA to the brink of insolvency. Through it all, sponsors have insisted that fans care only about what happens on the field.

Perhaps. But the spontaneous voice vote in Seoul suggests that the soccer Establishment has grown



FIFA'S BLATTER:
No oversight, but lots of allegations

dangerously out of touch with the fans. That's one more reason sponsors should be pushing for reform before the next World Cup, in 2006. "It's in their enlightened self-interest to take action," says Jeremy Pope of the London-based anticorruption group Transparency International.

As an organization, FIFA operates with almost no oversight. Blatter—who won't even give FIFA's executive committee a clear idea how much he is paying himself—has refused to cooperate with an independent audit launched by the committee.

Only the national soccer associations can oust Blatter, and they've missed their chance, since elections won't be held again until 2006. Swiss prosecutors are investigating Zen-Ruffinen's allegations, including one that Blatter paid \$25,000 for damag-

ing information on a man who accused Blatter backers of buying votes in FIFA's 1998 presidential election. Blatter declined an interview but said in a written response to Zen-Ruffinen's report that the money was a personal gift to a needy friend.

FIFA's problems are playing out against a background of upheaval in the soccer business. In Germany, Kirch is \$60 million behind in payments to pro teams after declaring insolvency. If Kirch or a new rights holder can't pay up, weaker teams could fold. The situation is similar in Britain after the bankruptcy of broadcaster ITV Digital. A third of Britain's 72 second-tier teams could go bust if they can't recover \$260 million they say ITV owes them.

At the end of the day, the sponsors alone are in a position to force change. Yet Korea's Hyundai Motor Co. is the only one to exert

pressure publicly, suggesting that FIFA's problems could affect whether it signs up again in 2006. But very soon, FIFA faces a day of financial reckoning. It raised

\$420 million in November by selling securities tied to revenue from the 2002 and 2006 World Cups, booking the revenue in 2000 and 2001 to stay in the black. In

the worst case, FIFA would go under, and sponsors would be forced to rescue it or build it anew.

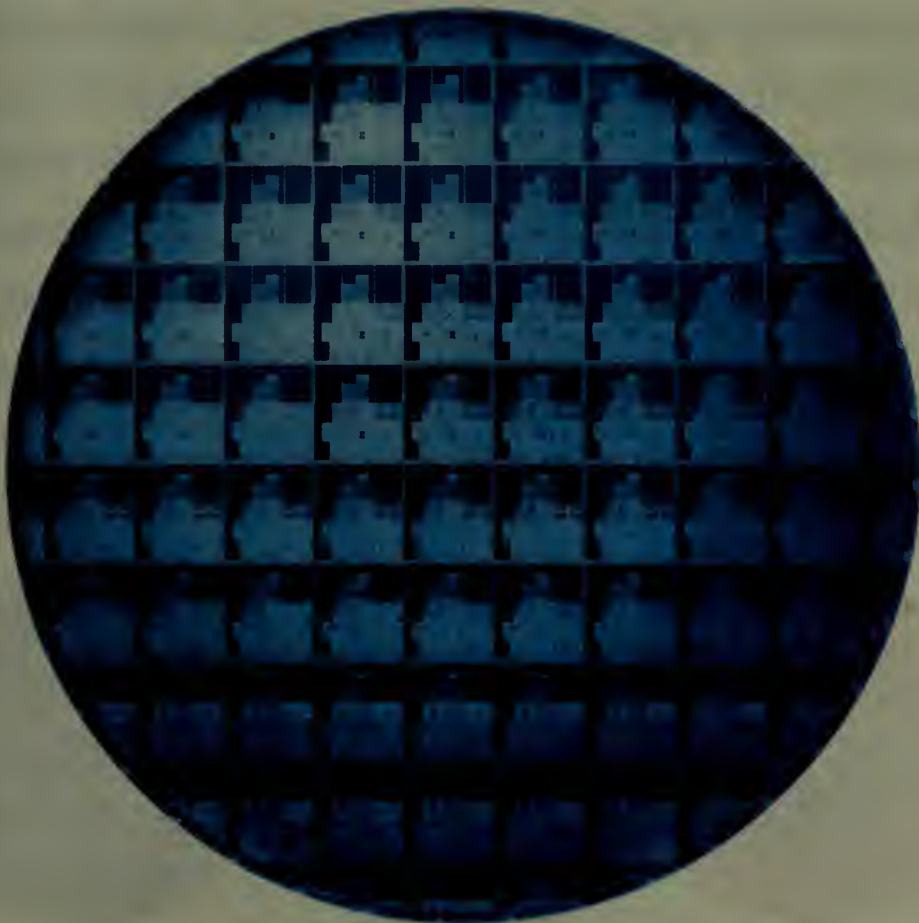
To thwart such scenarios, sponsors must urge Blatter to cooperate fully with the independent audit. And they should insist that FIFA better account for the tens of millions it dispenses to member nations. Without more disclosure, "the beautiful game" will continue to suffer from off-field ugliness.

With Kerry Capell in London



**GETTING
ROUGH**
Soccer's
power
brokers are
growing out
of touch
with fans—a
key reason
sponsors
should push
for reform

Do Intel engineers have a secret formula for success?



A single wafer of Intel® Itanium® 2 processors contains over 13 billion transistors.



And the key ingredient in the Intel formula is this: our core belief that advanced engineering will continue to increase the performance of computing year after year. And deliver the tools that make business run better.



It takes remarkable resources to produce such complex products in mass quantities.

1.

Innovate.

It's the essence of what we do: create new technologies to help business do more at lower cost. It's engineering applied to real business. Processing technologies that bring tangible improvement to computing and communications, day after day.



The electron microscope allows us to explore nanometer-sized transistors.

2.

Mass produce.

Creating one new processor is only a start.

The challenge is to manufacture millions to meet the demands of computer makers and corporations worldwide.

Thinking on this scale allows us to deliver higher performance and lower cost to business.

3.

Reinvest.

Business speaks, Intel listens.

Based on real-world feedback, we invest heavily in new-generation technologies.

Last year, it was over \$11 billion for research and new facilities.

We think of it as an investment in your company's future.



In just one week,
a typical Intel facility can produce
thousands of wafers.

intel®

4.

**Repeat
enthusiastically.**

**It's been a
successful formula
for over 30 years.**

**It's also our
business plan for
the future.**

**Because it's a
formula that allows
us to keep
delivering
innovative, reliable
and cost-effective
computing
solutions. That's
the way Intel
works.**

Enthusiastically.



In the world of Intel,
the clean-room is
a way of life.



It takes teamwork —
and incredibly advanced technology —
to create Intel processors.



intel®

COMMENTARY

By Louis Lavelle

WHEN DIRECTORS JOIN CEOs AT THE TROUGH

It's a tough time to be a corporate director. With accounting scandals and company meltdowns as common as summer rain, board members are now in the crosshairs of everyone from class-action lawyers to criminal investigators, with a few congressional committees thrown in for good measure. It makes you wonder why directors stick with it.

Until you consider the benefits. In addition to money, perks, and prestige, directors frequently enjoy an array of side deals that may include millions of dollars in consulting and legal fees, leases, and contracts.

In recent months, several cases have exploded into view: the \$72,000-a-year consulting contract for John Wakeham of Enron's see-no-evil audit committee, Tyco International's \$10 million payment to director Frank Walsh for his help on the CIT Group merger, and the rampant self-dealing by Rigas family members who sat on the board at Adelphia Communications.

The fact that such deals make headlines suggests they're uncommon, but they're not. According to Executive Compensation Advisory Services, one out of four U.S. companies are enmeshed in such conflicts, including such paragons of good governance as Pfizer, Wal-Mart, and General Electric. At all three companies, two or more directors also are consultants, suppliers, or providers of legal, brokerage, or investment-banking services.

Elsewhere, the problems are more egregious. At WorldCom Group, Chairman Bert C. Roberts Jr. and other WorldCom employees get to fly on private aircraft—and WorldCom pays Roberts' transportation company for providing the service. At American International Group Inc., CEO Maurice R. Greenberg heads a

private holding company in which he has a 22% stake and sits on the board along with six other inside AIG directors who also have stakes. Last year, AIG paid the company \$77 million for producing insurance business. AIG says shareholders benefit because

of the holding company's expertise in cer-

like these create the perception of a private club where members are free to dip into the corporate coffers at will. When such deals are struck with outside directors, they raise doubts about the directors' independence. The deals also reflect badly on the CEOs who authorize them, raising the possibility that consulting contracts are a tool to silence board watchdogs. "Everybody has concluded that independence is the

one thing we must have above all else," says

Jay W. Lorsch, a Harvard Business School professor who advises companies on governance.

"The message just isn't getting through to some of these people."

That may be about to change. A few companies, including

Tyson Foods Inc. and Walt Disney Co., have taken tentative steps on their own. Pending regulations could inspire more to follow. Both the New York Stock Exchange and Nasdaq are proposing new standards. At Nasdaq, related-party transactions would require audit-committee approval, while non-employee directors who accept more than \$60,000 would lose their "independent" status—and with it their ability to serve on key committees.

As laudable as such moves are, though, they don't go far

enough. Long-term contracts with directors should be banned altogether. While board members may provide valuable consulting or management help during a crisis, those instances should be the exception and not the rule. Directors, like most people, are not inclined to bite the hand that feeds them. The best insurance against a management fiasco is a boardroom full of pit bulls.

Lavelle covers management from New York.



NICE WORK, AND THEN SOME

*Board members sometimes collect a lot more than directors' fees from companies they oversee**

ENRON John Wakeham, a member of the board's audit committee, received \$72,000 a year to consult on European operations

FREEPORT-McMORAN COPPER & GOLD AND McMORAN EXPLORATION Through a jointly owned services firm, the two companies paid five members of their boards nearly \$1.7 million in consulting fees

WORLDCom Paid company owned by Chairman Bert Roberts Jr. \$405,447 to provide air transportation for WorldCom employees

*All dollar amounts are for 2001

Data: Company filings

tain kinds of insurance. At Freeport-McMoRan Copper & Gold Inc., director J. Stapleton Roy got \$200,000 to consult on "world political, economic, strategic, and social developments"—and says he never produced a written report. Roy, a former ambassador to Indonesia, says that a company prohibition barring directors who do work for the company from serving on key committees, along with full disclosure, solves the conflict problem.

At a time when directors are under more scrutiny than ever, boards

JOHNSON & JOHNSON: A SHOPPING SPREE WAITING TO HAPPEN

The drug giant is thriving. But with few blockbusters on deck, it may be time to fetch its checkbook

There's no doubt that health-care colossus Johnson & Johnson has been in the pink lately. Net income climbed a healthy 18% last year, to \$5.9 billion, excluding one-time charges, while revenues rose nearly 11%, to \$33 billion, thanks to such successes as anemia drug Procrit. And the stock is up about 20% over the past year as investors anticipate the launch of a potential \$1 billion-plus cardiac medical device in early 2003.

But J&J's performance is almost certain to taper off in a couple of years. Competition will heat up in some key markets, while the launch of J&J's own promising new drugs is at least several years off. It's increasingly clear that to keep profits rolling in, CEO William C. Weldon will have to break out the J&J checkbook and strike some deals—and do it before J&J's competitors snap up the best prospects or force it to pay more than it would like.

Weldon, the former head of J&J's drug business who took over the top spot this April, faces a tough balancing act. He has to generate long-term growth while making sure that he doesn't overpay to get it. "Nothing is cheap, that's for sure," says Weldon. But he adds,

"If we have above-average earnings growth, it allows us to be more flexible, to look at more opportunities to enhance our growth." Competitors will be watching his strategy closely. Growth has come harder for the drug industry lately, with a rising share coming from extensions of existing drugs. If J&J can't make the acquisitions it needs to keep its momentum up, it is likely no one in the industry can.

Why the rush? This is, after all, the same company whose performance easily outpaced industry averages, while finishing first among *BusinessWeek's* 50 top-performing companies. And Weldon disputes the notion that the com-

pany will face a gap in its new-drug pipeline in the next couple of years. Still, J&J has no imminent blockbuster drugs of its own, and some top sellers will likely soon face intense competition. With \$3.4 billion in yearly sales, Procrit (sold abroad as Eprex), could take a hit from Amgen Inc.'s anemia

drug Aranesp, which may be approved for use by cancer patients this year. And J&J's new drug-coated stent, which seems to sharply cut the risk that arteries will become clogged again after angioplasty, may face rival products from companies like Guidant Corp. by late 2003.

The result: After torrid growth this year and next, Merrill Lynch & Co. analyst Daniel T. Lemaître sees J&J's earnings growth falling to 13% by 2005. Says Jon M. Fisher, head of equity research at Fifth Third Bank, a large J&J shareholder: "They have to do some deals."

Finding the right deals won't be easy. A number of big drugmakers, such as Merck & Co. and Bristol-Myers Squibb Co., face an earnings slump as they grapple with generic competition and dearth of big new drugs. So J&J will be competing with increasingly hungry competitors eager to buy or license promising new products. And that could push the price of the best companies up substantially. "It is so competitive out there," says one investment banker. "The hard part will be [striking deals] at a reasonable price."

Still, J&J has a strong track record as an acquirer. Weldon's predecessor, Ral-

TIGHTER TIMES

Superseller Procrit, an anemia drug, is facing a direct challenger

WHAT'S IN STORE FOR J&J?

Possible targets for the health-care giant:

SCIOS Its new drug for heart failure could bring in \$500 million a year.

GILEAD SCIENCES Its new HIV drug is off to a good start. Some analysts believe it could generate close to \$1 billion in sales.

CEPHALON Provigil, its fast-growing drug for narcolepsy, may eventually be used for a range of other sleep disorders—and garner \$700 million in sales.

CV THERAPEUTICS A drug in the works for angina could be worth \$500 million a year.

WELDON RAN THE DRUG BIZ BEFORE HE BECAME CEO



x 250^{hp}



300M

Agile performance multiplied by a High Output 250 hp V6 engine equals 300M—the most powerful sports sedan in its class*—with performance-tuned suspension, traction control, and four-wheel ABS. 1.800.CHRYSLER or visit chrysler.com

CHRYSLER



Drive = Love

on 2002 EPA Large Car Segment equipped with a V6 engine.

S. Larsen, purchased 55 companies over the past 10 years—usually with solid results. Take the 1999 acquisition of biotech player Centocor Inc. That allowed J&J to get its hands on promising rheumatoid arthritis drug Remicade. J&J's marketing might helped boost Remicade sales from \$116 million to \$721 million last year. And J&J has learned from its periodic stumbles. After the company's 1994 hostile purchase of medical-device manufacturer Cordis Corp. led to an exodus of talent, J&J created a merger-integration team to avoid such problems in the future.

So what might Weldon buy? Analysts and bankers figure J&J will probably strike a series of deals in the \$10 billion range over the next two years for companies with new drugs that are already on the market or close to regulatory approval. One possible target is Gilead Sciences Inc., which recently won Food & Drug Administration approval for a new HIV drug. Lloyd S. Kurtz, senior vice-president for San Francisco money manager Harris Bretall Sullivan & Smith LLC, says that drug could hit \$1 billion in sales. Cephalon Inc.'s Provigil—approved for narcolepsy—could fit in with J&J's fast-growing psychiatric franchise and fetch \$700 million a year in sales. And other investors point to Scios Inc., whose new drug to treat congestive heart failure could bring in \$500 million a year in revenues, and CV Therapeutics Inc., which is working on a treatment for angina. Jonas V. Alsenas, a portfolio manager at ING Furan Selz Asset Management LLC, believes that CV's drug could exceed \$500 million in annual sales. All the companies cited as possible acquisitions declined to comment, as did J&J.

J&J is likely to be highly discriminating. While there has been speculation that it might be interested in buying troubled Bristol-Myers Squibb, investment bankers say that's unlikely because Bristol's top-line growth is weak. Industry sources say that earlier this year, J&J looked at St. Paul (Minn.)-based St. Jude Medical Inc., a medical-device maker with \$1.4 billion in sales. But J&J is said to have passed on a deal because rapidly changing technologies would make an acquisition too risky. St. Jude and J&J declined to comment.

In the race to make the best acquisitions first, J&J has a trump card to play against the Mercks and Bristols of the world: Its strong earnings have led to a high-priced stock. J&J's price-earnings ratio based on projected 2003 earnings is 22, vs. Merck's 16.7 and Bristol's 17.6. J&J can easily afford to ante up in any high-stakes acquisition game. The only question is how it will play its hand.

By Amy Barrett in Philadelphia

Government



THE STATES

STATES: A REBOUND WON'T END RED INK

Medicaid bills are soaring as corporate and sales taxes shrink

For harried governors, there's bad news—and worse news—on the budget front. The bad news: The recession-driven tax shortfall continues to deepen. The worse news: Even when the economy recovers, state budgets could be wrecked by a nasty mix of anemic revenues and exploding health-care costs into the foreseeable future.

In the short run, the National Governors' Assn. and four other groups report that income tax revenues for January to April—the months when most taxes are paid—fell a staggering \$14.5 billion, or 14%, from 2001.

The NGA estimates that up to \$10 billion of that shortfall may have been caused by a decline in capital gains, dividends, and options—the reverse wealth

effect driven by a sagging stock market.

Once the market regains its luster, those dollars will gradually return, easing the states' short-term budget crunch. But swings in income taxes mask more serious long-term revenue spending problems. Together, they point to a fiscal squeeze continuing well after the economy recovers.

On the revenue side, states increasingly are failing to collect taxes on goods and services that businesses and consumers buy. To make matters worse, corporate taxes are dwindling as companies find new ways to avoid them.

Meanwhile, health-care costs, especially for Medicaid, threaten to drain whatever new dollars do flow into state coffers. "States are setting them-

LOST REVENUE State sales taxes apply to goods and services

Spend
some
quality
time
with
your
money.



See inside

On-air weekend mornings.
Check your local listings.

To advertise on TV or through one of our multi-platform packages, contact Janet Schatz, Director of BusinessWeek TV Sales, at 212-512-3011 or janet.schatz@businessweektv.com.

www.businessweektv.com

to for trouble," says Iris J. Lav, deputy director of the Center on Budget & Policy Priorities, a liberal think tank. "They have a basic problem that doesn't have much to do with today's economy."

Adds Mark M. Zandi, chief economist at consulting firm Economy.com Inc.: "A governor's job in the '90s was basically ribbon-cutting. In the next decade, they're going to have to make some very hard choices."

Much of the revenue shortfall is a result of limits on sales taxes. Most states tax the purchase of goods but exclude services. Increasingly, though, services are what families and businesses buy—whether legal advice or New Economy purchases such as broadband. In 1960, families spent only about 41¢ of every dollar on services. By 2000, it was 58¢.

Yet only a handful of states make much of an attempt to tax such expenditures. "We've got a structural problem," concedes Kentucky Governor Paul E. Patton.

At the same time, fast-growing Web sales are draining even more tax dollars. While consumers technically owe taxes on Internet purchases, they rarely pay them. As a result, states and

localities could see expected revenues shrink by up to 4% annually by 2006 as e-commerce grows.

In addition, a growing share of the economy is built on intangible assets, such as copyrights, databases, and employee expertise. And much of that added value is also untaxed. "We're talking about a long-run, insidious problem," says Robert Tennewald, assistant vice-president of the Federal Reserve Bank of Boston.

That's one reason why corporate income taxes are shriveling. Here's another: Businesses are shifting income to low-tax states or to foreign subsidiaries. As a result, such taxes shrunk from \$35 billion in 1998 to just \$23 billion this year, barely 5% of all state taxes.

Just as revenues are falling, states are being hit by exploding health-care costs, especially for Medicaid, which targets the poor.

Today, Washington pays roughly half the program's cost. The rest is picked up by states and counties. Over the last five years alone, their costs have ballooned from \$72 billion to a staggering \$105 billion. And they will keep ris-

ing at double-digit rates. "Medicaid is our real problem," says Michigan Governor John Engler.

In North Carolina, state officials expect the program to grow by at least \$1 billion a year through the decade. "This simply is not sustainable," says Lanier Cansler, deputy secretary of the state's Health & Human Services Dept. "In 10 to 15 years, every new dollar the state takes in will go to fund Medicaid."

In most states, the increase is being driven by nursing-home and prescription-drug expenses for the elderly poor. In Ohio, 80% of Medicaid spending is for the aged, blind, and disabled. And the program now represents 24% of the state's budget, rivaling elementary and secondary education as its biggest expense. The Citizens Research Council of

Michigan, a taxpayer watchdog group, has calculated whether that state's revenues will catch up with spending through 2009. "Our conclusion is that they can't," says Tom Clay, the group's senior research associate.

Governors would like Washington to fix the Medicaid mess by increasing the federal contribution and by paying for drugs for seniors through

Medicare, which is 100% funded by the feds. That would cut state drug costs for 7 million seniors.

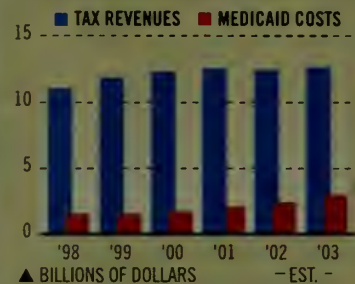
States have attempted to solve their own revenue problems, but with little success. Kentucky, for instance, tried to tax services such as auto repairs. But it abandoned the idea in the face of heavy business lobbying and the fear that consumers would simply purchase such services out of state. Unable to reform their tax systems, states are patching their leaky revenue streams by raising fees, boosting cigarette taxes, and jacking up sales tax rates. But these strategies are unlikely to make up for the shrinking sales and corporate tax base.

In the end, governors will have to dramatically reform their tax systems, in part by tapping services and products that now go untaxed. And they'll have to make tough decisions about spending, including asking whether they can continue to pay for so much of the care of a growing elderly population. Ribbon-cutting was a lot more fun.

By Howard Gleckman in Washington, with Ann Therese Palmer in Chicago

ONE STATE'S CRUNCH

North Carolina is struggling with slowing tax revenues and ballooning Medicaid costs



*Medicaid cost is 38% state and county share of total expenses. Feds pay the remaining 62%.
Data: State of North Carolina

not most services. That will have to change

WHITE KNIGHTS OR LOOSE CANNONS?

It's state AGs vs. Corporate America

COMMENTARY

By Mike France

A few months ago, New York Attorney General Eliot Spitzer suddenly rode up on a white horse and established himself as America's most visible defender of the small investor. Although his office's small Investor Protection & Securities Bureau has historically focused on a grab bag of fringe issues such as franchise fraud and broker registration, Spitzer brazenly challenged the very institutional foundation of Wall Street. Armed with incendiary evidence that Merrill Lynch & Co. stock analysts had misled retail consumers to please the firm's investment bankers, he launched a broad investigation into whether these activities should be separated. Spitzer's arrival was welcomed on Main Street and forced the Securities & Exchange Commission, tone-deaf to investor anger, to belatedly follow suit.

Then, a mere six weeks after he announced the probe, Spitzer settled with Merrill. Although he had initially vowed to set in motion big structural changes in the securities industry, the AG accepted a package of marginal reforms that probably won't do much to fix the conflict of interest between analysts and investment bankers. Also abandoned were any plans to bring criminal charges, unseal documents that might have revealed if the rot at Merrill spread beyond its Internet group, and compensate defrauded shareholders. In-

stead, nearly all of the \$100 million settlement will go into the treasuries of the 50 states. After all the initial excitement, the quick deal was a letdown.

That's a common experience with the attorneys general. With their ears close to the ground, the states' top cops are great at sparking issues—think tobacco or privacy rights—that are stalled in Washington. Yet, at the same time, there is something unsavory about the way they operate. All too often, the AGs hop onto already crowded populist bandwagons, engage in grandstanding rather than sober analysis, then stage dramatic press conferences to announce what amounts to puny settlements.

So are the attorneys general a blessing or a curse? It's a critical issue, because the AGs are playing an ever wider regulatory role. Indeed, they're sometimes referred to as the fourth branch of government. Taking on everything from merger review to predatory lending to drug pricing, the attorneys general can sometimes seem like the SEC, Justice Dept., Federal Trade Commission, Food & Drug Administration, and National Highway Traffic Safety Administration wrapped into one (table).

As such, they're driving companies crazy. Chief executives argue that there's no need for such specialized federal agencies to be backed up by a redundant layer of politically motivated generalists. Some of Corporate America's complaints are valid. But by and large, companies are getting what they

deserve. After all, they have been served up a string of scandals that have angered the public—and have used checkbook politics to block Washington from doing anything about it. This has shaken people's faith in the ability of the federal government to punish executive wrongdoers, clean up markets, and protect consumers.

That, as much as any other factor, is what is creating an opening for Spitzer and like-minded law enforcers such as California's Bill Lockyer and Connecticut's Richard Blumenthal. The weaknesses of Washington's bureaucracy are the AGs' strengths.

For one thing, the attorneys general's broad jurisdiction makes them much less prone to the well-documented phenomenon of "regulatory capture" by special interests. And the fact that more than 80% of the AGs are elected means that they are usually quite responsive to the public's mood. "The whole idea of federalism is that the state is entitled to protect its citizens when the federal government isn't doing it," says Spitzer.

BROAD REACH

Name a hot issue, and the attorneys general are probably involved—even though they overlap with federal agencies

ANTITRUST Although the Justice Dept. has settled its case with Microsoft, nine states are still pushing for tougher penalties. AGs also police mergers and predatory business practices.

DRUG PRICING AGs from 29 states sued Bristol-Myers Squibb, accusing it of illegally blocking less expensive generic versions of Taxol, its blockbuster cancer-fighting drug.

HIGHWAY SAFETY AGs sued Bridgestone and won a \$51 million settlement. The deal called on the company to improve its safety measures, among other things.



Washington's inaction has created an opportunity for AGs such as Blumenthal, Spitzer, and Lockyer

1980s, when liberal attorneys general grew frustrated by the Reagan Administration's abandonment of antitrust law. For the first time, they began teaming up on a regular basis to launch lawsuits. Multistate litigation cut the AGs' costs, broadened their reach, and ultimately brought them a new level of public exposure during the landmark tobacco case of the 1990s.

In response to these multistate suits, many companies have tried to get judges to rule that the attorneys general are exceeding their powers. These efforts have almost always failed. Although the precise authority and duties of the AGs vary from state to state, courts have generally agreed that they may, as one federal jurist put it, "exercise all such authority as the public interest requires." Meaning, they can do nearly anything Congress has not specifically preempted—a short list of prohibitions that includes areas such as interstate trucking and airline passenger rights. "Most of the criticism of the attorneys general on constitutional grounds is just masked policy disagreement," says Harvard Law School constitutional law professor Laurence Tribe.

As a result, Corporate America will increasingly be facing a daunting foe. Many general counsels will tell you that no opponent is scarier than a pack of attorneys general—not plaintiffs' lawyers, not federal agencies, not Congress. Unlike tort lawyers, the AGs can bring criminal charges, summon the media at a moment's notice, and count on immediate credibility with jurors. Plus, they can't be bought off with mere money. Unlike Congress or the federal agencies, they are not burdened by slow deliberative processes—and can impose much bigger costs on corporate oppo-

a good job," says Erwin Chemerisin, constitutional scholar at the University of Southern California. So long as citizens feel betrayed by Washington, they are likely to welcome attorney general activism, encouraging Spitzer & Co. to branch out into new areas. Already, the AGs have ventured beyond their historic role. Initially, their main purpose was to serve, es-

entially, as in-house counsel for state officials—providing them with, among other things, legal opinions and court counsel. That duty still occupies the majority of AG staffers. But in the 1970s, the AGs started to dabble in consumer protection, civil rights, and environmental enforcement.

Their profile rose even higher in the

TORY LENDING Big in the AG community. They're suing to establish public pension programs, and for new consumer protection regulations.

PRIVACY AGs have been an active regulatory force protecting consumer privacy. They have put pressure on the financial-services industry to restrict unauthorized data sharing.

TOBACCO Remains a live issue after states' settlement with the industry in 1998. In February, 40 states reached an accord with Walgreens on measures to bar cigarette sales to minors.

WALL STREET The wave of probes into the conflict of interest between analysts and investment bankers was sparked by New York AG Eliot Spitzer. AGs also prosecute local financial fraud.

"I don't think there will ever be suits against McDonald's... [The AGs] have to find industries that people dislike"

nents. Many companies targeted by multistate litigation complain that they have to hire a separate law firm in each state capital. "The difference between getting a letter from a plaintiffs' attorney and getting a C.I.D. [civil investigative demand] from an AG is the difference between matches and a hand grenade," says Washington (D.C.) attorney Andy Miller, a former Virginia attorney general who specializes in defending companies against his former brethren.

For companies, then, the big danger is that the AGs will abuse their clout. As elected officials, the attorneys general measure their success first and foremost in the court of public opinion—not necessarily in courts of law. They can win by filing a suit that is popular with constituents, even if it doesn't have a snowball's chance with a judge. And that's potentially dangerous. The very purpose of the rule of law is to protect the unpopular from the mob. "Every attorney general wants to go somewhere—to the governor's office or the Senate," says former Virginia Attorney

General Richard Cullen, who is now in private practice. "Favorable publicity is their currency."

Some legally speculative, but politically popular, lawsuits have already been launched, including cases filed by New York against handgun makers, by Connecticut vs. health-maintenance organizations, and by Rhode Island against lead-paint manufacturers. "I don't think there will ever be suits against McDonald's or Burger King for making people fat," says Washington (D.C.) tort lawyer Victor Schwartz. "They are too popular. [The AGs] have to find industries that people dislike."

And there are plenty of other risks. States may erect new regulations that conflict with federal rules. Moreover, inexperienced AG staffers may reach into

areas that go well beyond their expertise. The lack of sophistication is one reason that U.S. District Judge Richard Posner has recommended that they get out of antitrust enforcement altogether. "Since becoming a judge 20 years ago, I have been struck by the poor quality of the briefs and arguments of most though not all of the lawyers in the offices of the states attorneys general," Posner writes in his recently published book, *Antitrust Law*. "[A] state attorney general's office is not able to scale up to anything like the level of specialization and professionalism of the Justice Department."

The idea of novice AG staffers diving into more and more companies' affairs may be a scary prospect. But as far as the general public is concerned, it's less frightening than relying on Washington. The new attorney general activism is likely to thrive until Corporate America cleans up its act—or the federal government starts forcing it to do so on a more consistent basis.

With Dan Carney in Washington and Heather Timmons in New York

THE BEST DEFENSE: A FORMER AG

Who are you going to call when the state attorneys general come knocking? Generally, the best bet is none other than a former AG. In recent years, several of them have built up sizable practices advising companies that have been targeted by multistate task forces.

The dean of these practitioners is Andy Miller, a two-time Virginia attorney general who has represented the tobacco industry and gun manufacturers, among others. Now, he has a growing number of competitors, including former Maine AG James E. Tierney, ex-Maryland AG Stephen H. Sachs, and Jeff Modisett, who held the post in Iowa from 1997 to 2000. These lawyers help clients understand the sometimes mystifying ways of the AGs. "You have to hire them," says one legal adviser to a



INSIDER Former Virginia AG Andy Miller advises companies targeted by multistate task forces

large company sued by several states. "Anybody who says you can get by without them doesn't know what they're talking about."

Like Senators and CEOs, attorneys general are a tightly knit group. They attend several conferences sponsored by the National Associa-

tion of Attorneys General (NAAG) each year and back one another up on pet causes. The former AGs, who are often seen trolling the NAAG get-togethers, provide unrivaled access to these power brokers. In fact, the Society of Attorneys General Emeritus (SAGE) gather together every year at NAAG's spring meeting in Washington, D.C., and have dinner with their successors. "A lot of us socialize together, go to one another's kids' weddings, and stay in touch by e-mail," says Tierney.

Access is not always a guarantee of success in court, however. Law enforcers such as New York's Eliot Spitzer and Connecticut's Richard Blumenthal have a reputation for resisting arm-twisting efforts, even by their former brethren. And sometimes, approaching an AG directly can backfire. "You have to be careful about going over the heads of the career staffers," says Richard Cullen, a former Virginia AG who practices in Richmond. All risks are relative, of course. A greater danger is to underestimate the AGs in the first place.

By Mike France in New York

WE KNOW YOU WANT TO HEAR ABOUT OUR LATEST GENE SEQUENCING FACILITIES AND NEWEST CYTOPLASMIC REPLACEMENT TECHNOLOGY.

BUT DOLLY INSISTS ON TOP BILLING.



...the first
...cloned from
...cell, refuting
...belief
...from adult
...could not
...to regenerate
...in ma

...Dolly the
...scientists
...used the
...pioneered
...and to clone
...sheep mice
...its and pig

...came to the
...July 1996 near
...burgh with a
...help from
...Wilmot and his
...gues at the
...Institute and
...Therapeutics

Dolly the Sheep was born in Scotland, but her fame is international. And she's just one example of Scotland's thriving and inventive biotech industry.

Scotland currently produces over 30 percent of the United Kingdom's postgraduates in genetics. It's the reason we have one of the largest biotechnology communities, as well as the largest concentration of pharmaceutical support organisations, in Europe. A list that includes companies such as Quintiles, BioReliance, Q-One Blotech and Inveresk Research.

Scottish Development International is a government-funded organisation that has a network of offices around the world that can help your biotech business tap into Scotland's key strengths in knowledge, high-level skills, technology and innovation.

Global companies are always looking for ways to gain a competitive advantage. Scottish Development International will help you find that expertise in Scotland. Find out more about bringing your business to Scotland. Or Scotland to your business.

Visit www.scottishdevelopmentinternational.org for more information.



SCOTTISH DEVELOPMENT INTERNATIONAL

©2002 Scottish Development International

BALLMER'S MICROSOFT

There isn't another company in the world as closely identified with its leader as Microsoft Corp. has been with William H. Gates III. When the PC revolution erupted in the mid-1980s, it was Gates who emerged as chief pitchman for the clunky machines that suddenly appeared on many desktops. When tech stocks soared to unimaginable heights, Gates's multibillions landed him atop the lists of the world's wealthiest. And when Microsoft found itself in the crosshairs of federal antitrust regulators, Gates personified the abuse of market power. He was lord over a software behemoth that in 27 years has racked up nearly \$50 billion in profits and that calls the tune for one of the world's most crucial industries. Gates is to our era what Rockefeller and Carnegie were to theirs.

But Gates no longer runs Microsoft. He gave up the chief executive role 2½ years ago to his best friend and longtime management sidekick, Steven A. Ballmer. The burly, eats-nails-for-breakfast Detroit native thrives on the discipline of organizational management the way Gates thrills to the intricacies of technology.

Cover Story

In 2000, Gates gave his pal free rein to restructure the way Microsoft manages finance, sales, product development, marketing, even strategic planning. And Ballmer took him up on it, big time.

Today, after a transition that had its rocky moments, it's clear that a new era has dawned at Microsoft: The powerhouse that Gates built is being reconstructed by Ballmer. And Gates doesn't seem to mind. Ask Gates about Ballmer's thumbprint on the company, and he laughs at the understatement. "Thumbprint? He's got big thumbs," Gates says. "Steve's the No.1 guy, and I'm the No.2 guy.... I have a strong voice, a strong recommendation, but Steve has to decide."

Indeed, if Gates is Rockefeller, then Ballmer is shaping up to be Microsoft's Jack Welch—not a visionary founder but a leader, like the legendary General Electric Co. CEO, with the

How CEO STEVE BALLMER is remaking the company that BILL GATES built

force of personality and management chops to reinvent a company in his own image. The 46-year-old Ballmer is not content to tend the machine Gates designed. His goal: to create "great, long-lasting company" that will be even more successful in its second quarter-century than it was in its first. "We've done well," he says. Now, "there's an opportunity to really amazing—to be amazing as a business, to be amazing in the positive impact that we have on society. But we have to do some things a little bit differently to be as amazing as we hope we can be."

After more than two years of trial and error as a new CEO, Ballmer has come up with his prescription for achieving amazement. He spelled it out publicly for the first time in a June 6 memo to 50,000 employees under the heading "Realizing Potential." Typically, crossing-the-Rubicon moments in Microsoft's history have been heralded by a call-to-arms memo. The "Internet Tidal Wave" e-mail that Gates sent out in 1995, for instance, spurred a sleepy Microsoft to become a force to be reckoned with on the Net. Ballmer's memo, too, is a clarion call. He lays out a new mission statement—agreed on by the company's top executives.



**"Steve's the No.1 guy, and I'm the No.2 guy....
I have a strong voice, a strong recommendation,
but Steve has to decide"** **Bill Gates**

during a March meeting—and describes the path to get there.

The new mission sounds simple enough, but it's audacious in scope: "To enable people and businesses throughout the world to realize their full potential." That's far broader than the company's basic goal of building software for any device, anywhere. For the first time, Microsoft's mission is not just about technology. It's also about improving the way the company handles relationships with customers and others in the technology industry. "This is not just a fluffy statement of principles, but really a call to action," Ballmer writes.

Indeed, the CEO is calling on his colleagues to do nothing less than rethink every aspect of the way they do their jobs. He has

Cover Story

put in place a set of management processes aimed at bridging the gap between the sales

and product-development sides of the company. He has empowered a second tier of executives to run their businesses with less supervision, breaking from Microsoft's heritage of placing every important decision in the hands of Gates and Ballmer. And, in response to the frustration of corporate customers, he has ordered his engineers, salesforce, and managers to improve the quality of their products and services.

To make it all stick, Ballmer has concocted a dizzying array of meetings, reviews, and examinations that force people to do their jobs differently. It includes everything from rank-and-file employees grading their supervisors to an accounting system for managers that helps them weigh spending trade-offs to

quarterly off-site brainstorming meetings for top execs. The new process is designed to hook into the next so decisions be made quickly—and can later be measured. This is light-years from the ad hoc way Microsoft took action before. The touch: Ballmer is making adoption of the new corporate va part of every employee's annual performance review.

Ballmer's hope is that his code of conduct also will make Microsoft a better corporate citizen. He says the company's values of honesty, integrity, and respect must shine through with customers, partners, and the tech industry. Microsoft's year antitrust case has put a severe strain on its relationships with the rest of the industry, but Ballmer believes that being open with others about its plans, Microsoft can regain the industry's trust. "We're going to work even harder on the positive relationships, whether that means an investment of time, an investment of energy, or being honest and open and respectful," he says.

To rivals, making Microsoft kinder and gentler is like getting a tiger to not only change its stripes but become vegetarian too. Indeed, in spite of the tentative settlement Microsoft reached with the Justice Dept., which is being contested in nine states, Ballmer doesn't plan to handcuff the software giant. Microsoft will continue to enter new businesses. Recent forays already have made it a competitive threat to a new set of companies, such as Sony in the game-console business and SAP in the accounting-software market. "The dialogue with us from the industry has always been, tell us what you're not going to do. If you ask me today, I'll tell you there's nothing I'm not going to do," Ballmer says. To Jonathan Schwartz, chief strategy officer at rival Sun Microsystems Inc., Ballmer's statements signal that Microsoft hasn't changed its ways.

Ballmer is acting friendly, he says, because "they've committed a few felonies and they're trying to get out on parole." And in a June 5 speech, SAP AG boss Hasso Plattner chided Microsoft

MANAGEMENT BY BALLMER

The CEO is making fundamental changes in the way Microsoft is managed. Here are some of his key goals:

CREATE NEW BUSINESS PROCESSES

"If we're successful, business isn't going to be any simpler to run five years from now than it is today. We better be thinking about the tools we need to run that business now"

PUSH AUTHORITY DOWN

"At the end of the day, they have to think it through as opposed to my saying, 'I'll think it through for them'"

ESTABLISH CROSS-COMPANY COLLABORATION

"The business strategy is going to become somewhat splintered from the technology development in some ways that were very dangerous"

THE PLAN

With 50,000 employees, Microsoft needs more management processes, from coordinating product strategies to including customer feedback.

Ballmer and Gates made key decisions. Now, senior managers will be expected to do tasks such as allocating resources between product development and sales.

Eight committees of top executives will regularly discuss strategy and leverage other's businesses rather than rely on Gates and Ballmer to spot opportunities.

RISKS

Innovation might suffer. Microsoft has thrived, in part, because it was light on structure and often felt like a startup.

Ballmer has been the prototypical hands-on manager. He needs to suppress that impulse and let execs run their businesses—or risk being overwhelmed.

A Ballmer or Gates decision has often led to turf wars. Now, it may be harder for execs with products to protect to see the big picture—and make compromises.



STEVE BALLMER
VICE-PRESIDENT, PRODUCTIVITY
AND BUSINESS SERVICES GROUP

CHALLENGE: Discovering a new
 of software applications

ORLANDO AYALA
GROUP VICE-PRESIDENT, WORLDWIDE
SALES, MARKETING, AND SERVICES

CHALLENGE: Making customer satisfac-
 tion the core of the sales operation

JOHN CONNORS
SENIOR VICE-PRESIDENT,
CHIEF FINANCIAL OFFICER

CHALLENGE: Devising financial metrics
 to guide product groups

ing barriers in front of rival software, comparing the com-
 to the Berlin Wall. "I want to say, like a famous American
 did, 'Mr. Gates, tear down this wall!'" Plattner said.

deed, even as Ballmer tries to soften the company's image,
 old Microsoft keeps getting in his way. The giant continues
 e tarnished by legal battles—and it's not just for the
 ball, anticompetitive tactics highlighted in the antitrust

The Securities & Exchange Commission spent three
 s investigating whether Microsoft, in the mid-1990s, arti-
 ly smoothed financial statements. Such legal skirmishes
 ten to undermine Ballmer's vision. His response: Settle.
 ng Ballmer's tenure, Microsoft settled the antitrust case
 the Justice Dept. and a host of other cases brought by
 workers, rivals, and customers. On May 31, Microsoft set-

tled the SEC matter, agreeing to alter its accounting methods.

Ballmer's chief challenges, however, are internal. One is the
 danger that so much attention to management processes and
 the myriad metrics of evaluating performance could stifle in-
 novation. The business processes Ballmer is putting in place fo-
 cus largely on making the trains run on time rather than on
 finding an alternative to railroads. "Policy is an abdication of
 thought," says former Microsoft chief technologist Nathan
 Myhrvold. "If you hire process-oriented guys, it's probable
 that an idea never bubbles up." Even so, Myhrvold realizes
 that more management structure is a necessary evil of a bur-
 geoning company. Microsoft's spending on R&D—17.3% of rev-
 enues—hasn't faltered, and Myhrvold's successor, Rick Rashid,
 believes the new business processes could help turn research

breakthroughs into products more quickly.

Ballmer also has to battle himself. Simply
 put, he's a grade-A control freak. He's ob-
 sessive about understanding every detail of
 a business—sales, costs, marketing—to the
 point where he might know how well the
 Office suite sold in Sweden last quarter.
 When he became president in 1998, he
 moved his office to RedWest, the nearby
 campus that's home to Microsoft's online
 businesses, and spent a year running the
 operation. When Paul Gross stepped down
 as the leader of Microsoft's wireless-com-
 puting group last year, Ballmer took con-
 trol of the division for nine months before
 handing off the job to Pieter Knook in
 February. "He'll have to learn to delegate.
 He wants to, but he's not wired that way,"
 says a former Microsoft executive.

It's not clear that the company's other
 managers are capable of changing their
 ways, either. In his memo, Ballmer says
 he wants his people to be "respectful" and
 "accountable" toward outsiders and each
 other. That's an about-face from the cul-
 ture he and Gates created, where hard-

CUSTOMER

"I want people to really
 on these systems, they
 be able to trust the
 y that makes them"

BUILD INDUSTRY TRUST

"You really have to learn
 how to be respectful and open
 and honest"

customer-focused, Ballmer is
 aign to make that central for
 loyee.

The lack of industry support during the
 antitrust trial led Ballmer to start com-
 municating with critics and rivals—even
 meeting with Oracle boss Larry Ellison.

cks on Microsoft's products—
 rate buyers irked by a shift in
 fees—suggest that Microsoft
 progress to make.

As long as Microsoft is seen as a
 heavy-handed monopolist and a threat
 to startups, distrust will run deep.

"A lot of people would like to see me balance a little bit more"

charging and hypercompetitive executives advanced by out-thinking each other and pummeling competitors. Moreover, Microsoft has torn through a string of chief operating officers, brought in from the outside, whose job it was to institute management processes. Most failed. "Many employees see these things as manifestations of old-line companies," says David B. Yoffie, a management professor at Harvard Business School. "It just isn't Microsoft." Ballmer has one advantage, though—he's not some outsider trying to impose a foreign structure on the company.

One benefit of the management shift is already clear. With Ballmer at the helm, Gates has been freed to do what he loves best: develop products. As chairman, Gates still figures mightily in corporate decisions, but he now spends 65% of his time on technology in his role as chief software architect. Perhaps the most notable result: Microsoft's Web-services push, dubbed .Net, has for the first time in years placed the company in the vanguard of a major technology shift. Gates is happier, too. "You can just see the sparkle in his eye," says Jeff Raikes, group vice-president in charge of the company's applications business. Gates agrees: "It's a nice time."

His last years as CEO were dark, indeed. The company was on trial for antitrust violations. It was bleeding talent to dot-

coms. And Gates was the guy on the hot seat. At a January, 1998, board meeting,

Cover Story

Gates began describing to the then-seven-member board how difficult his job had become. The more he talked, the more emotional he became. "This job is too hard for anybody," Gates told the board, according to longtime director David F. Marquardt. "He was really distraught. He was at his wit's end."

So Gates gradually began turning day-to-day management over to Ballmer. First, he made Ballmer president. A year-and-a-half later, he elevated him to CEO. There was no better person to take the job. Ballmer, after all, had always been comfortable with the ins and outs of management. He and Gates had been friends since the mid-1970s, when the two were math whizzes at Harvard University. Gates dropped out and co-founded Microsoft while Ballmer stayed to graduate. Ballmer went on to gain experience as a marketer at Procter & Gamble Co., where he met future GE CEO Jeffrey R. Immelt. After two years, Ballmer headed for Stanford University's MBA program for a better grounding in business.

When the fledgling Microsoft ran into problems in 1980, Gates persuaded his friend to drop out and give him a hand. And help Ballmer did, ultimately holding just about every type of management job in the company, including sales chief. Today, Ballmer lives with his wife and three sons in tony Hunts Point near Seattle—a far cry from his days in the De-



HEAD CHEERLEADER (clockwise from top) Video of Ballmerously rallying the troops at a company meeting that culminated on the Web, earning him the tag "Monkey Boy"; a point; jumping into "Lake Bill" in the winter on a d

troit suburbs, where he played football and knew Scott McNealy, now CEO of rival Sun Microsystems.

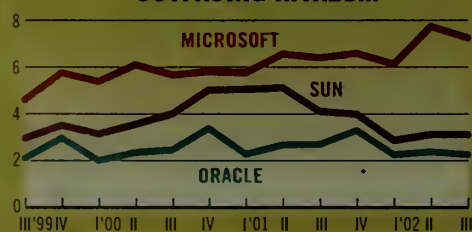
Even though Gates and Ballmer have long been best buddies, the transfer of power was anything but smooth. Gates resisted handing off authority at first, struggling to give up high-level decisions that he had made for decades. "So, the first six months were definitely harder than we expected. The second six months were just so-so," Gates admitted. Some staff meetings devolved into shouting matches. At one meeting, Gates approved a budget hike to add more people to a project. Ballmer vetoed him, barking, "You put me in charge of the company. Let me run it," say execs familiar with the meeting. Neither Gates nor Ballmer recall the incident, though Ballmer says it could have happened since the pair often squabbled in meetings. "Bill had to acclimate to the idea that he could defer decisions to Steve," says Senior Vice-President Craig Mundie. It took some time, but the duo eventually grew into their new roles. "It's a cautionary note to anybody who wants to try something like that," Gates says.

Ballmer's first stabs at retooling weren't any easier. He realized he couldn't manage Microsoft the way Gates had. There were just too many moving parts, and it was too unwieldy.

HOW MICROSOFT HAS FARED UNDER BALLMER

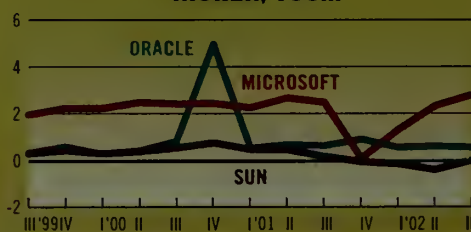
Microsoft already dominated the markets for PC

REVENUES ARE OUTPACING RIVALS...



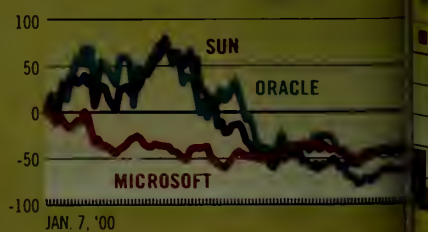
NOTE: MICROSOFT AND SUN'S FISCAL YEARS END JUNE 30; ORACLE'S FISCAL YEAR ENDS MAY 31

...PROFITS ARE RICHER, TOO...



▲ BILLIONS OF DOLLARS

...WHILE THE STOCK PRICE IS FIRMER



▲ INDEX: JAN. 7, '00=0

Data: Bloomberg F

ide with the tough side” Steve Ballmer



spite the fact that I think I'm a pretty bright guy, I knew I wasn't bright enough to run the whole company the way I did sales, where I had a pretty complete model of what we were up to all in my head," Ballmer says, smacking himself in the forehead with the heel of his hand, as if driving home how hard it was to get his mind around Microsoft.

There was—and is—plenty to boggle a mind. The company is not only large, it's no longer the racehorse it once was. Sales roared along at an average 36% a year through the 1990s but slowed in the past two fiscal years. Now, in the fiscal year that ends June 30, Wall Street expects Microsoft sales to grow just 12%. While net income is expected to rise 36%, that's because earnings last year were depressed by unusual losses. Operating income is expected to rise just 6% this fiscal year, to \$10.73 billion, according to Goldman, Sachs & Co.

When Ballmer became CEO, the tech industry has tanked and the company's stock has declined 54%.

The problem has been that the two biggest growth engines—the Windows operating system and Office suite of applications—are slowing as PC sales wane. Even though Microsoft has had success in some new markets, such as databases and software for handhelds, it has struggled in the fledgling

markets for interactive TV and cell phones. That left Ballmer looking for alternatives—a key reason why Microsoft last year jumped into the game-console business with Xbox and into the accounting-software business with the acquisition of Great Plains Software Inc.

Ballmer realized that Microsoft needed new methods to manage an ever-more-complex company. He first tried to organize around different kinds of customers. The idea was to get product-development groups more connected to users. But the reorganization didn't work. Decisions about such widely used products as Windows, for example, spread across too many of the new divisions. Not even a year into his new job, Ballmer was stressed out and looked it.

Now, Ballmer feels like he's on the right track. He has lost 52 pounds in the past year. He is tanned and clearly comfortable in his CEO role. A series of epiphanies brought him to this place—the result of reorganizational experiments, face-to-face meetings with execs at other companies, and thirsty reading of management books. *Good to Great* by management guru James C. Collins and Welch's *Jack: Straight From the Gut* got him to think about solving a wide variety of problems systematically, rather than trying to fix them on an ad hoc basis.

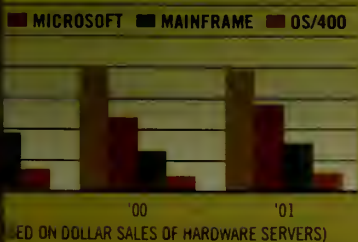
From this patchwork, Ballmer stitched together a quilt of management processes that, he says, especially suits Microsoft. Ballmer elevated the importance of something he calls the "organizational health index," a key factor in measuring executive performance. Taken from Procter & Gamble, the OHI is a survey of employees who are asked to rate their bosses on their leadership skills. By studying GE, Ballmer crafted a new system to identify and promote promising managers.

Perhaps Ballmer's biggest innovation is something called the Executive P&L, launched in April. It's a balance sheet that divides the company into seven distinct businesses and gives each unit's leader the financial tools to measure its performance. Ballmer hopes the device will empower execs who have long worked in an environment where everything was run by the CEO. In the past, managers would know the costs of developing a product but not the cost of selling it. Now, they can see their costs end-to-end, giving them the information necessary to make decisions about allocating resources without having to run it by Ballmer.

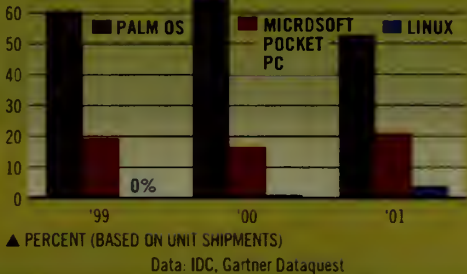
To some managers, it's liberating. On June 3, Senior Vice-President Doug Burgum walked Ballmer through his financial

and applications when Ballmer took over as CEO in 2000. With Ballmer in charge, it has made progress in some newer markets.

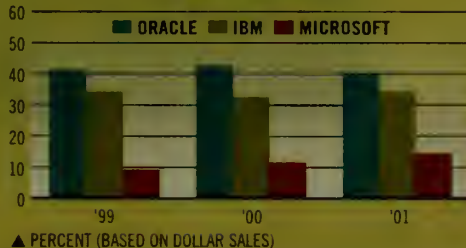
IT'S STRONG IN SERVER OPERATING SYSTEMS...



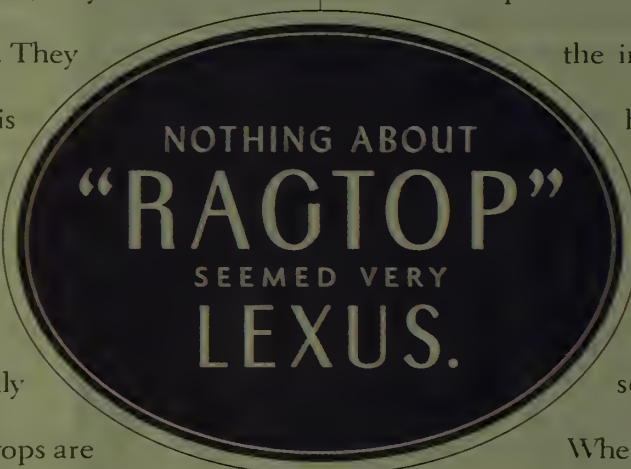
...AND INCHING UP IN HANDHELS...



...AND GAINING GROUND IN DATABASES



When Lexus engineers set out to build the SC 430 hardtop convertible, they were not just building a convertible. They were building a Lexus. This is no small distinction. You see, your traditional ragtop may offer the thrill of an open sky, but it's hardly a bastion of comfort. Ragtops are noisy. They are renowned for leaking both air and water. Now that's not very Lexus-like, is it?



No, a Lexus convertible would have to retain the requisite luxuries of its brethren. Enter the ingenious, elegant SC 430 hardtop convertible. Press a button and the SC 430 hardtop gracefully raises or lowers. In a mere 12 seconds, no less. When the top is up, the SC 430 is transformed into a secure, weatherproof sport coupe. Put the top down and it's you, the



en sky and its potent 4.3-liter, 300-hp V8
engine. To keep all this power under control,
the SC 430 is equipped with Vehicle Skid
Control,* Traction Control and anti-lock brakes.
And huge 18-inch alloy wheels† with available
non-flat, low-profile tires‡ hug the road and
announce its sport coupe intentions.

Yet, if the SC 430 performs like a sports car,
the feeling behind the wheel is remarkably
refined. A windshield-high cockpit cowl and

rear-wind deflector reduce wind drafts. Intuitive
Climate Control senses and then automatically
regulates cabin temperature, even in the face
of a changing sun. Hand-stitched fine leather
trim caresses eye and skin and is accented by
burled walnut or bird's-eye maple trim. Both
front seats are power-adjustable and heated.

In short, the SC 430 stands uncompromised.
And while this may not be very common in a
convertible, it is quite common in a Lexus.

Can an automobile delight, comfort, fascinate and energize you?
Make lexus.com for a test drive. The Passionate Pursuit of Perfection.



Conditions and driver steering input can all affect whether VSC will be effective in preventing a loss of control. †18 x 8.0-in wheels with low-profile 245/40ZR18 tires are expected to
must remain below 55 miles per hour; cornering, braking and accelerating must be done with extreme caution; and the tire should be replaced within 100 miles. See your Lexus
near seat, obey all speed laws and drive responsibly. For more information, call 800-USA-LEXUS (800-872-5398).

"The first six months were definitely harder than we expected. And even the second six months were just so-so"

Bill Gates

plan for his corporate-applications group for the coming fiscal year. Ballmer seized on an unusually large bump in R&D spending. In the end, he made it clear it was up to Burgum to decide how much to spend. "In some ways, the review felt like a really good board meeting," says Burgum, who ran Great Plains Software.

To make sure the new management system ticks along with Swiss precision, Ballmer has adopted a calendar with regularly scheduled meetings. The cycle, which Ballmer calls the "rhythm of the business," kicked off on May 29 with seven days of business-plan reviews. In October, the company's 21 senior vice-presidents will meet for two weeks with their staffs, analyzing their organizational structure and their development needs. A month later, leaders of the company's seven businesses

gather for seven days of high-level brainstorming sessions designed to identify new

opportunities. And in January, after the results of Microsoft's annual customer-satisfaction survey come in, the same execs meet for four days to analyze them.

Gates had his "think weeks," where he secluded himself at his family's retreat in Hood Canal in northwest Washington to ruminate on the Next Big Thing in technology. Ballmer has created "management sync weeks," weeklong events every quarter with day-after-day of meetings involving the executive staff and board members. The idea is to coordinate themes and strategies among the company's important decision-making groups. The first sync week begins June 17.

It's not enough to have new business processes, though. Ballmer wants to change the way people behave, too. He needs managers who are willing to work collaboratively. "People have to be very open, self-critical, almost relentlessly honest, and, at the same time, respectful," he says. Ballmer also wants people who are driven to finish projects on time. Under Ballmer's regime, powerful executives at the company are so-called finishers, such as Office applications boss Raikes, Chief Financial Officer John Connors, and sales chief Orlando Ayala.

Ballmer has been quick to get rid of people who don't fit in. The most prominent management departure came in April, when President Richard E. Belluzzo stepped down. Belluzzo, formerly CEO of Silicon Graphics Inc., never fit into the Ballmer mode. Belluzzo acknowledges that there were times when Ballmer knew Belluzzo's business—especially his numbers—better than Belluzzo did. That's a cardinal sin. "Steve and I had some hard times," Belluzzo says. Ballmer wouldn't comment.

Ballmer has always been a tough boss. He's known for eviscerating business plans at annual reviews, sometimes humiliating execs in the process. One former top exec says he'd rather put his arm in a food processor than work for Ballmer again. "Steve is a pain in the ass to work for," the

exec says. Ballmer says he's trying to improve. "A lot of people would like to see me balance a little bit more the other side with the tough side," he says. "I think I've hit a better balance than I had in the past."

He's working just as diligently on presenting a more friendly face to other technology companies. Ballmer needs smoother relations with an industry that is wary of Microsoft's moves because he wants others to adopt Microsoft's technology. He visits Silicon Valley once every other month. And Ballmer has actually become friendly with former Oracle Corp. President Raymond J. Lane, now a partner at Silicon Valley venture-capital firm Kleiner Perkins Caufield & Byers. Ballmer initiated the Microsoft VC Summit in 2000, and the event has become an annual gathering where venture capitalists learn about Microsoft's plans. "This didn't happen in Gates's day," Lane says. "It's Ballmer."

That kind of talk makes Ballmer sensitive. He doesn't like to take credit for everything at Microsoft. "It's really not about how Steve and a set of other guys, including Bill, did it. The next step, trying to make this the first real great software company," says Ballmer.

Greatness, though, will only come if the company gains more credibility with customers. Last summer, Microsoft surprised corporate customers with a licensing plan that encourages them to sign a new contract to receive automatic upgrades of software. "It tries to force me into an upgrade, but I don't necessarily want that," says Jim Prevo, chief information officer at Green Mountain Coffee Inc. in Waterbury, Vt. Pressure from customers led Microsoft to postpone the deadline for upgrading licenses twice and loosen the rules. The revised plan kicked in on July 31, but surveys by analysts signal many customers don't like it.

Always attuned to customer complaints, Ballmer is even more sensitive now. At a March management retreat attended by 100 people in Sun River, Ore., sales chief Ayala made a plea to other Microsoft execs to put the customer first. Ayala said customers often think Microsoft doesn't care about producing great products and they believe Microsoft feels it can get away with shoddy work because it has a monopoly. "Some of us should lose our jobs," Ayala says. "All of us should be accountable." He got a standing ovation. At the end of the retreat, Ballmer decided to make customer trust the focus of September's management sync week. He got a standing ovation, too.

A taller order will be to remake Microsoft into a company that can grow rapidly and profit handsomely, while also being seen as trustworthy by customers and its industry brethren. Ballmer can pull that off, Microsoft executives won't be the only ones applauding.

By Jay Greene in Redmond, Wash., with Steve Hamer in New York, and Jim Kerstetter in San Mateo, Calif.

Cover Story

THE CEO'S ACTION ITEMS

In his June 6 "Guide to Action" memo to Microsoft employees, Ballmer outlined steps for making Microsoft amazing. Here is the gist of some of them:

- ▶ Upcoming business-unit reviews will focus on computer security, product road maps, and helping customers do new things.
- ▶ Major innovations will be planned for the next generations of Windows including Longhorn.
- ▶ The executive team will look at all decision-making processes to make sure they're excellent.
- ▶ He'll meet with every vice-president of the company over the next five months to get their input.
- ▶ During August performance reviews, every employee will discuss the company's values with his or her supervisor.
- ▶ Ballmer himself will honcho product-quality and customer-loyalty programs.

Data: Microsoft Corp

BILL, ON SWITCHING JOBS WITH STEVE

Microsoft Corp. Chairman William H. Gates III seems like a man who got a second chance at happiness. His mood is as bright as the view out of his new, fifth-story office at the company's Redmond, Wash., campus. Interviewed by Business Week Senior Editor Kathy Rebellio and Seattle Bureau Chief Jay Greene, Gates talks about how pleased he is to have passed the CEO job over to Steve A. Ballmer, and how he's now spending his time on what he likes—software.

Are there changes Steve Ballmer has made that you would not have made had you remained CEO?

Yes, absolutely. The thing about what you draw a larger group of people in [to decision-making], for one. I don't know if I would have pushed that as hard as he did. It's a challenge to do. When he first did it, my attitude, a little bit, was, "I don't know if this is going to work." And now that he's got it working smoothly, I can say that I wish I had some of the good systems in place. If I had, I would have benefited.

Can you give a report card on Ballmer's tenure?

I think Steve would say in his first year he was learning how to be CEO, and he was trying some things that were in some ways more ambitious or different than what had been done before. And those took time. In terms of being willing to try new things and getting those systems going, I'd give him very high marks.

The goal of letting me focus more on the products—he certainly gets an A on that. He's very protective of my time. There are lots of things that just systematically don't get on my calendar, or that systematically other people take care of. And he is very careful about which business-review-type meetings he feels I need to be in and which ones I don't.

Microsoft is so identified with you. Do you feel that the changes that Steve is bringing in make it less your company?

Well, you know, it's not my company. When people think about a company, it's easy not to see the 50,000 people and who they are and how smart they are and how the breakthroughs are really coming from them. It's easy to think about just the few, the one

or two people at the top. Hopefully, people are seeing, if you move down the ranks, what the broad set of Microsoft people are doing. It's not just one person. And it's not just two people, either.

How hard was the transition for you?

Steve and I are just incredibly close friends. We've worked together for 20 years. Steve's an amazing person whose skill set overlaps mine in areas, but he's just incredibly good at a lot of things. I'm not good at, and vice versa. But in the first six months, there were definitely things that neither of us were doing that one of us should have been doing, or things that both of us were doing that one of us should have been doing. So the first six months were definitely harder than we expected. And even the second six months were just so-so.

It's really as we got into the second year that we got into the new rhythm. And now we're just completely in the new configuration. I have a strong voice, a strong recommendation, but Steve has to decide. Steve's got that very clear, and I understand exactly how I fit into the way he wants to run the process and do things.

Did it create tension between you two?

I've heard the two of you raised your voices in meetings.

But that's not new. The fact that Steve and I would disagree in a meeting is not new. The only thing that was new is during the first six months we were saying to ourselves, "Wow, this is harder than we expected. Am I the one? What can I do to make these things better?" What does Steve think I should do to make this thing smoother?" There

was a set of issues about moving into the new roles and making it work.

Actually, we were very careful to try to minimize the disagreements during those six months. I guarantee you that nobody flipping that configuration will find it as easy as Steve and I did, because of the mutual trust and how long we've worked with each other and the friendship we have with each other. And even so, it was hard. So I would say it's a cautionary note to anybody who wants to try something like that.

What's your role as chief software architect?

In a sense, I was CEA when I was CEO. I would do product reviews. People would come in and say, "Here's what we plan to do." And I would say, "Jeez, I want this feature, I want that feature." But it was kind of a one-time review thing. There was not enough time to do early brainstorming sessions. A few weeks ago, I did a brainstorming session with the tablet guys. I never would have done that in the last eight years. This is a meeting where my role is to talk about what are the neat new things that they really ought to investigate.

For this next big wave, the next version of Windows, code-named Longhorn, we have written down the scenarios that count. I have 10 scenario teams. Digital-rights management is one. The new user interface is one. We have this thing called "information agent," which is about getting you the information you want, when you want it, and never interrupting or bugging you with information that you don't want. But you really can't measure my impact in a dramatic way until Longhorn ships, which is years off. ■



MERGERS

HP AND COMPAQ: IT'S SHOWTIME

The cost-cutting looks doable, but other synergies may be more elusive than expected

On a sunny San Francisco weekend in early May, few passersby gave a second thought to signs at a downtown hotel pointing to the "Leadership Readiness Summit." But inside a packed ballroom, the crowd was riveted. After 48 hours of near-nonstop meetings with 325 managers from Hewlett-Packard Co. and Compaq Computer Corp., HP Chief Executive Carleton S. Fiorina was giving final marching orders to her top lieutenants just days after the merger was completed. Seven decades ago, Fiorina said, no one thought it was possible to build a Golden Gate Bridge. Many naysayers, she added, believed the same about an HP-Compaq combo. Her rallying cry: Prove them wrong.

That may be tougher than Fiorina imagines. Granted, HP won kudos at a June 4 meeting in Boston with securities analysts for revealing that it has accelerated cost savings from the merger. But executives also said that, even though two computer giants have been folded together, the new HP still depends on printers and services for all of its profits. What's more, recent execution gaffes and strategic decisions about product lines going forward suggest Fiorina could have a hard time keeping her promise of holding the revenue loss from the merger to just 4.9%.

In the wake of the meeting, at least five analysts cut their revenue projections for HP—by 7% to 10%. "We understand that we have a lot to prove in the near-term," says Fiorina. Still, she insists the company can meet the merger goals on revenue slippage.

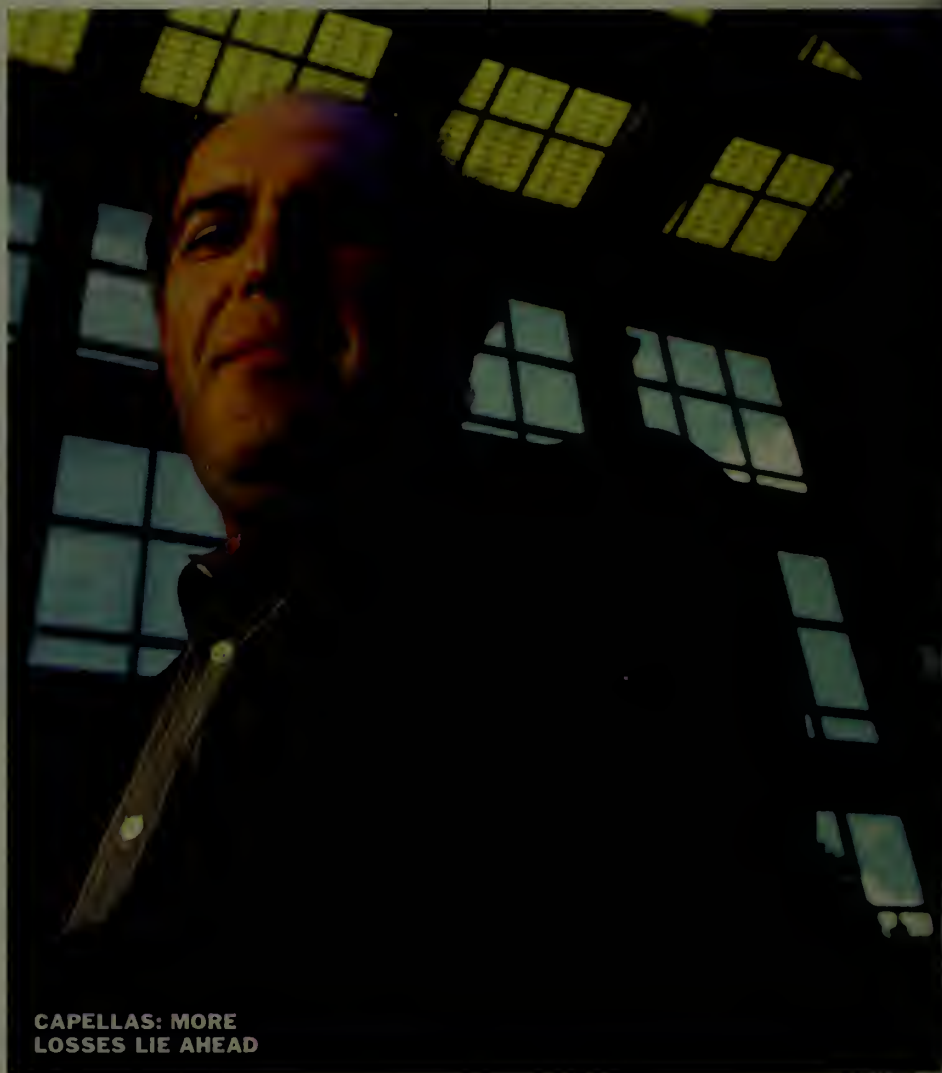
So far, the integration scorecard is mixed. At the Boston meeting, HP President Michael D. Capellas boasted that the company's printing and services divisions are "great bookends" that prop up sales and profits even when tech spending is in a slump. Looking at the books of the divisions in between, it's clear they need something to hold them up. If the companies had been operating as one, the HP and Compaq PC units

would have posted a loss of \$163 million in the second quarter, ended Apr. 30, compared with a \$187 million loss a year earlier. The two divisions that make high-end servers, storage machines, and enterprise software would have lost \$233 million in the second quarter, compared with a \$1 million profit a year earlier.

Offsetting those dismal results were the printing division's \$767 million in profits and a \$358 million gain from services. A year earlier, printers would have contributed \$364 million and services would have added \$411 million. For

the future, there's little prospect of change: The company says the printing business will grow by 10% in 2003 and 2004. By contrast, personal computer sales will fall this year and grow less than 2% next year. And profits? Expect losses or breakeven until 2004, when HP predicts its PC unit to turn in steady profits again.

In short, the PC operation appears to be moving in the wrong direction just now. While the company's goal is to emulate more closely Dell Computer Corp.'s build-to-order, direct-sales model, recent execution problems show little progress



CAPELLAS: MORE
LOSSES LIE AHEAD

that front. As consumer retail demand for PCs fell sharply in April and May, inventory in HP's sales pipeline stretched from six weeks' supply to eight, while Compaq's rose from four weeks to six, says broker UBS Warburg. Dell, by comparison, had just four days' finished goods on hand during the same period. Now, HP's inventory overhang means that the company will have to offer discounts and other sales incentives, producing more losses in the third quarter, Capellas says. "April-May is always a weak time," he says. "It was just weaker than expected."

Worse, that weakness may continue if HP can't decide which PC brand it wants to focus on. The company surprised many when it said it will continue selling both HP and Compaq PCs in stores. HP says the two take up more shelf space, which will keep competitors from poaching their combined retail market share of more than 50%. But they'll also compete against each other for consumers' dollars and could create confusion. If that happens, you'll find they will pull the plug on the line very quickly," says Gartner analyst Martin Reynolds.



HP says the two brands will appeal to different groups. Compaq will be pitched to consumers who want to set up home offices and connect wirelessly to the Internet, says Jeff Clarke, Compaq's former chief financial officer and co-head of the integration efforts. PCs from HP, meanwhile, will be positioned as home entertainment devices and as digital imaging machines for photography enthusiasts. The secret sauce, Clarke says, is

in annual savings by then. "We are moving faster and achieving more" than expected, she said. The accelerated cost savings come from leveraging HP's new bulk to renegotiate contracts for supplies such as memory chips and hard drives. A big chunk of the savings—\$1.5 billion annually—will come from trimming the payroll. On June 4, HP said it expected about 4,000 workers over age 50 to accept a generous, early-

Fiorina says the integration is on track. Predicting savings of \$3 billion a year by 2004, she says: "We are moving faster and achieving more" than expected

that two brands will create more PC sales than a single brand. And that means HP can sell more add-ons such as printers and digital cameras, which have higher profit margins. Fiorina says the integration is on track. At the Boston meeting, she said the merger would help HP cut costs by at least \$3 billion annually by 2004, outstripping earlier estimates of \$2.5 billion

retirement buyout offer. In all, HP plans to pare 10,000 jobs by November—out of an expected 15,000 job cuts—hoping to quickly remove a cloud of uncertainty that has left many of HP's 145,000 workers in limbo.

Even though executives have devoted more than 1 million worker-hours to plans for integration, many hard choices remain. Before the merger, Fiorina proposed an aggressive, adopt-and-go plan—which called for lining up competing HP and Compaq products side by side, then killing off whichever was the weaker of the two. That led to the elimination of most HP-branded server computers using processors from Intel, Compaq's Tru64 Unix operating system, HP business PCs, and its Jornada handheld. Yet much work remains: Before the merger, HP and Compaq made a total of 85,000 products. By November, the company will have cut that to 62,000. "We'd all like to see them quickly simplify their product line, but I think they're moving as fast as they can," says Merrill Lynch & Co. analyst Steve Milunovich.

The new HP still has a little time to enjoy the honeymoon. For now, Fiorina & Co. can blame weak results on the continued muted tech recovery. But the clock is ticking as skeptics look for signs that a bigger HP translates into a better HP. The cost cuts, they say, are a good first step, but HP will need to boost sales if the merger is to fulfill its real potential. "It is simply too early to tell what HP will be capable of delivering post-integration. The company needs to walk before it can run," says analyst Toni Sacconaghi of Sanford C. Bernstein & Co. If Fiorina truly wants to create a new HP as strong as the Golden Gate Bridge, she has a lot of building ahead of her.

By Cliff Edwards in Boston, with Andrew Park in Dallas

A POST-MERGER CHECKLIST

Workers from HP and Compaq have spent more than 1 million hours planning their merger. Here's how they're doing:

CHALLENGE	PROGRESS
CHOOSING PRODUCTS Abruptly killing off redundant products might scare customers and deflate revenues. But mostly overlap remains: HP still sells 62,000 of the two companies' 85,000 products.	POOR 
TRIMMING FAT With at least \$1 billion in savings from procurement alone, HP now says it can cut costs by \$3 billion annually by 2004. Still, the 15,000 layoffs have just begun and will take more than a year to complete.	GOOD 
FIXING THE PC BIZ Fiorina kept both PC brands. That'll help hang on to shelf space in stores, but it's not the radical change needed to boost efficiency and margins. Instead, she needs to streamline her supply chain and do more direct selling—just like rival Dell Computer.	POOR 
KEEPING KEY STAFFERS Handing out \$55 million in retention bonuses prevented a brain drain. And Fiorina didn't play favorites: Compaq execs got responsibility for half of total revenue.	GOOD 
BOOSTING MORALE Many workers opposed the merger, and Fiorina hasn't yet made peace with those foes. Instead, she's hoping to get rid of any malcontents with buyout offers to 9,000 employees.	POOR 
AVOIDING CULTURE CLASHES Staffers say turf battles are raging between HP and Compaq folks. Fiorina is using that tension to shake things up, but it may backfire if workers from HP's more laid-back culture lose too many fights.	FAIR 

BROKERAGES

MERRILL: IS STAN THE MAN?

In a tough market, O'Neal's strategy is on the line

Almost a year ago, when America's No. 1 brokerage was reeling from a 41% decline in earnings, E. Stanley O'Neal looked like the man with all the answers. Merrill Lynch Chairman and CEO David H. Komansky had barely finished installing O'Neal, formerly the head of Merrill Lynch & Co.'s U.S. private client group, as his new president and de facto successor when O'Neal began to overhaul the financial icon. Known as a ferocious cost-cutter, he quickly shuttered loss-making operations in Japan, reduced Merrill's head count by 10,000—16% of the payroll—and pushed rivals for the top job out the door. Indeed, O'Neal moved so aggressively that he fueled rumors that Komansky would be forced to retire ahead of schedule: In February, he set up a management committee to run the brokerage that didn't include the chief executive.

However, it turned out that O'Neal needed the boss more than he imagined. When New York State Attorney General Eliot Spitzer charged Merrill with issuing misleading research in April, Komansky shot back into public prominence, sparking speculation both inside and outside the firm that he was trying to reassert himself. Insiders say the affable Komansky, a former broker who loves to schmooze with clients, was brought in to repair damage in the delicate negotiations after the tightly wound O'Neal balked at Spitzer's initial suggestions for settlement terms. Merrill denies this. "There was no difference of opinion at any time between the two as to how

to proceed in the negotiations," insists company spokesman Paul W. Critchlow. "Komansky is very comfortable with their relationship and partnership."

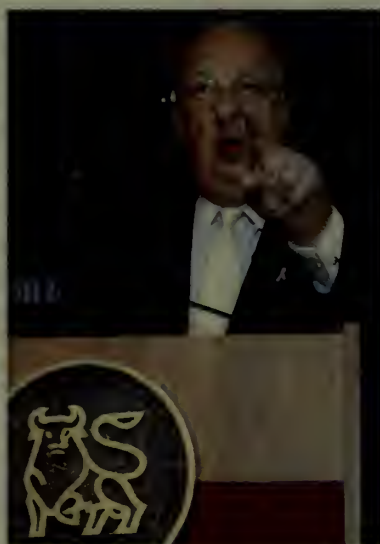
Either way, it's clear that Merrill desperately wants, and needs, to move on. Insiders are betting that O'Neal, 50, will be promoted to CEO this year to signal that a new era has begun at Merrill. Komansky, 63, is expected to stay on as chairman, although it's not sure he'll last until his preferred retirement date in 2004.

For Merrill to truly rebound, O'Neal needs to prove that he can fix the firm. And that's quite a challenge. Merrill's stock price has fallen 24% since he became president, wiping about \$9 billion from its market value. The damage to the firm's reputation from Spitzer's investigation and the brutal competition for sparse equity offerings and mergers are making it more difficult for O'Neal to convince investors that he can finesse a strong comeback. And there's a chance that Merrill will soon lose its

top-gun status as the firm with the most brokers in America.

Time may not be on O'Neal's side. Some analysts believe he may have only a year in which to prove his makeover is working. "I think the next step the board would take if O'Neal can't sort it out might be just to sell Merrill," says Guy Moszkowski, financial-services industry analyst at Salomon Smith Barney. "That's ridiculous speculation," says Critchlow. "The board will give him whatever time is needed to move the company forward."

O'Neal's turnaround plan is very sim-



FRONT AND CENTER

Insiders credit the affable Komansky (above), not the cool O'Neal, with mollifying the New York AG

A ROUGH RIDE

Merrill's stock has been on



ple. He wants Merrill to be the most profitable brokerage, not the biggest. So, he's axing low-margin operations such as underwriting short-term debt and retail brokering in Canada to plot freed-up capital into more lucrative businesses. The aim: boost Merrill's pretax profit margin to 24%, up from its present 19.9%, by next year.



KEEP IT SIMPLE

O'Neal's turnaround strategy is to shed underachieving operations and divert the freed-up capital to the real rainmakers

scramble for business since the bust in technology stocks in the spring of 2000, Merrill is losing ground in such profitable lines as advising on mergers and acquisitions and underwriting junk bonds. Merrill remains the No.2 underwriter of global debt and equity even though its market share dipped to 8.7% through June 5, down from 10.6% in 2001. The firm has fallen to No.6 among the ranks of advisers on announced mergers, with a 15% market share, down from the No.2 position with a nearly 30% share in 2001, according to Thomson Financial. "While Merrill has shown margin improvement, it's too early to say definitively how the pie will end up being split when it begins to grow again," says Diane B. Glossman, securities-industry analyst at UBS/PaineWebber Inc.

The firm's hallmark retail brokerage business, which accounts for about one-third of its earnings, hasn't been spared, either. Merrill's client assets in the U.S. failed to grow in the first quarter while rival firms such as Charles Schwab Corp. collected \$15 billion.

That's bad enough.

But an even greater hurdle may be in store for Merrill. In the wake of O'Neal's staff cuts, Merrill may soon lose its bragging rights as the country's biggest broker. Competitors such as Salomon Smith Barney and Morgan Stanley Dean Witter & Co. have been racing to train more brokers, while Merrill has shed financial consultants (as it calls its brokers) in the last two years. "At some point, our numbers will cross," says John H. Schaefer, head of retail brokerage operations at Morgan Stanley. "Potentially, even within a year."

It may sound like a macho squabble of little real consequence. But what's at stake is the permanent loss of the lead Merrill has enjoyed since the 1940s. Its legendary Thundering Herd of bullish brokers recruited more clients—and raked in more assets—than those of its competitors. Apart from spinning off lu-

crative commissions and management fees, Merrill's unmatched breadth is also a key to winning even more profitable underwriting from companies that want to be sure that their stock and bond issues are sold to the greatest number of clients.

Merrill insists that it doesn't feel threatened. The firm argues that its brokers are much more productive because they manage \$1.2 trillion in client assets compared with, for example, \$588 billion at Morgan Stanley. "The number of advisers is minimally relevant to us," says Bob Mulholland, a managing director in Merrill Lynch's U.S. private-client group. "We're much more interested in the quality."

But rivals are not sitting still, either. Salomon Smith Barney's brokers already manage more assets per head than the brokers at Merrill. And Morgan Stanley believes that by rolling out new services it can boost assets under management to \$1 trillion over the next

five years, if not sooner. At the same time, some analysts expect that Merrill's brokers will find it harder to sign up new customers and garner new assets since Spitzer has damaged the credibility of the firm's analysts.

O'Neal isn't interested in listening to excuses from the firm's troops. On May 21, the day of the settlement with Spitzer, he told analysts that he's still aiming for

24% margins next year, a goal that the firm set in 2000. "The fact that they have the same margin targets in a much more challenging revenue environment speaks volumes about the cost-cutting opportunities and O'Neal's progress," says Mark Constant, a securities-industry analyst for Lehman Brothers Inc.

Neither O'Neal, nor Merrill, can afford for his strategy to fail. There is no longer any obvious replacement for him. And Komansky doesn't want the responsibility of turning around the company. Asked on May 21 about the potential fallout from Spitzer's investigation on Merrill's financial goals, Komansky replied: "Thankfully, that's going to be pretty much Stan's headache." O'Neal politely laughed at the time. But it may turn out to be no joke.

By Emily Thornton
in New York

CLOSING IN ON THE THUNDERING HERD

Merrill still has the most U.S. financial advisers, but rivals are narrowing its lead

	MERRILL LYNCH	MORGAN STANLEY	SALOMON SMITH BARNEY
2002	14,000	13,273	12,923
2001	14,240	12,783	12,641
2000	16,040	13,210	12,127
1999	14,690	12,120	11,333
1998	14,075	11,004	10,800

Data: Companies

Since Stan O'Neal's promotion



so far, the results of his revamp are mixed. Although revenues for the first quarter fell 21% from a year ago, O'Neal limited the slide in pretax margins to just one percentage point. But none of that reflected onetime revenue gains from the sale of \$101 million worth of businesses. And while all investment banks have been forced to

under the stars, waiting for an answer

Dr. Jill Tarter, *Astronomer. Director of the Search for Extraterrestrial Intelligence. SETI Institute*



An extraordinarily thin, lightweight design. A long-lasting battery. A ThinkLight[®] on select models that illuminates the keyboard at night. **Easier Mobility.** It's just one of the reasons why some of the world's most successful people choose ThinkPad[®] notebook computers. Select models feature a Mobile Intel[®] Pentium[®] 4 Processor-M for outstanding performance and mobility. Call **1.877.thinkpad** or visit **ibm.com/thinkpad/think**



ThinkPad Where do you do your best thinking?

IBM

IBM, the IBM logo, and ThinkPad are trademarks or registered trademarks of International Business Machines Corporation. Intel, the Intel logo, and Pentium are trademarks or registered trademarks of Intel Corporation or its subsidiaries in the United States and other countries. All other trademarks are trademarks of their respective companies. © 2002 IBM Corp. All rights reserved.

AUTOS

GM'S CASH GUZZLERS

Profits are up, but pension and health-care liabilities are staggering

A hot new Cadillac. Booming sport-utility vehicle sales. A higher profit forecast—the fourth upward revision this year. A stock price up more than 20% since January 1. General Motors Corp.'s June 3 analysts' teleconference was brimming with good news. Although U.S. sales fell 12% in May, GM said net profits would more than double, to \$3.4 billion, in 2002. After years of restructuring, retiring Chairman John F. "Jack" Smith Jr. and CEO G. Richard Wagoner Jr. are entitled to some feeling of satisfaction.

The trouble is, the turnaround of GM's car business is only half the story. Two creeping problems plague the world's largest auto maker—each with the potential to gobble up a fat chunk of cash. It has the largest pension fund and the highest health-care costs of any U.S. company, with obligations to 452,600 retirees. GM is scrambling to fill a \$9 billion hole—as of yearend 2001—in its \$67 billion pension plan. It also has a \$47 billion potential chasm in its retiree health-care trust.

Certainly not all is due now. GM can meet its current payments. But at the present size and rate of return on investments, the funds can't cover projected costs. And until the market picks up sharply, they'll keep falling behind. To get the funds back on track, GM will have to inject billions in the coming years. Says



Sanford C. Bernstein & Co. analyst Scott Hill: "If GM didn't have these huge health-care and pension costs, this would be an awesome recovery."

Unfortunately, that's not all. There is also GM's 20% stake in Italy's troubled Fiat Auto. It came with an ill-timed commitment—a put option—to buy the rest from the parent company as early as 2004 (box). If Fiat's woes worsen, GM may be compelled to make an offer before its value deteriorates much more. Says Deutsche Bank analyst Rod Lache: "That's money they

don't need to spend right now."

Indeed. Cash is GM's Achilles' heel, even without Fiat. In the cyclical business, a key measure of ability to weather big hits—say a recession or pension shortfalls—is cash net of debt. GM says it has \$17.3 billion in cash equivalents and \$15 billion in debt. The cash number includes \$3 billion from the \$4.9 billion health-care fund, which many analysts say GM should count. Excluding that, GM has no net of uncommitted cash.

Meanwhile, just to keep the retiree

cost shortfalls from getting bigger, GM is likely to have to spend at least \$2 billion in the pension fund next year. That is based on an optimistic assumption of investment fund returns of 7%. Just to stay where it is, to avoid an additional payment, GM says it needs to make 10% in investments and insists that's feasible.

To keep from falling into cash further, GM must sell assets. It has some \$8 billion up its sleeve. The sale of Hughes Electro-

THE LONG-TERM STRAINS ON GM'S FINANCES ARE SIZABLE...

PENSIONS GM's \$67 billion pension fund is \$9 billion below future obligations to retirees. The company has plowed \$35.4 billion into the fund since 1992 and might have to put in \$2 billion or more next year.

HEALTH CARE GM's retiree health benefits fund has \$4.9 billion, but actuaries say GM needs \$47 billion more to cover potential costs. The company isn't legally obligated to bank that much, but executives say GM owes a "meaningful" amount near term.

FIAT GM's \$2.4 billion deal for 20% of Fiat Auto included a put option for the rest, which Fiat can exercise as of 2004. GM may buy out Fiat early for less but could still pay about \$3 billion.

...BUT INVESTORS REMAIN UPBEAT



Data: Bloomberg Financial Markets, company reports

rp. satellite business to EchoStar Communications could yield \$6 billion. Deise contracting and locomotive operations may fetch \$2 billion.

GM's so-called legacy costs are bills of failures past. "Everyone has their challenges," says CEO Wagoner. "At this moment, legacy costs is a big one for GM once was the auto industry king. In 1962, it had half the U.S. market. It now has less than a third. But union contracts all but blocked layoffs, so it hired workers instead. That mortgaged the company to its future retirees.

Things have been worse. In 1993, when GM was nearly broke, its pension fund was underfunded by \$18.5 billion. It plowed almost \$32 billion into it until the late 1990s when market returns at least 20% a year put the fund back to the black.

GM is mobilizing, but it must contend with a bear market. Says Wagoner: "Against a base of \$80 billion, if you have

off year, you're in the hole again." GM's unfunded \$47 billion health-care liability represents long-term costs as people retire. GM currently pays those benefits from cash flow and the health-care fund. The company, says GM treasurer Eric A. Feldstein, plans to put in "a meaningful amount" to build up the fund for the future, but that diverts cash from such priorities as new models, GM insiders say. "It's a competitive disadvantage for us," acknowledges Feldstein. GM execs say the black holes don't daunt them. Wagoner and Vice-Chairman and CFO John M. Vine are on a crusade to generate cash and boost the balance

sheet. They recently raised \$4.6 billion, mostly in convertible debt, and put half the pension fund. They've delayed or ended less profitable models and fast-tracked the \$49,000 Hummer H2 SUV. A SUV makes about \$10,000 in profits. The maneuvers to date haven't assuaged some GM watchers' fears. Scott Sprinzen, analyst with Standard & Poor's Corporate Rating service, says that ending pension liabilities with convertible debt swaps one liability for another. Sprinzen rates GM debt BBB+, the same money-losing Ford Motor Co. "We're taking a guarded look at their credit," says Sprinzen. "The pension portfolio will continue to be a big concern."

Bernstein analyst Hill estimates that its average costs per car are \$1,350 more than Toyota's just from retiree expenses. That means that GM will struggle to make headway for years to come. Wagoner for Wagoner's motivated team, it's a heavy legacy to bear.

By David Welch in Detroit

WHY FIAT'S SLIDE IS GM'S PROBLEM

On May 31, Fiat's top brass flew to Rome for a frantic, three-day huddle with the company's three largest lenders. Moody's Investors Service and Standard & Poor's were weighing a downgrade to junk status of the top Italian industrial group, which has \$33 billion in gross debt. That would have revealed the true extent of Fiat's weakness and disarray and sent the European corporate debt markets into chaos.

Fiat Chairman Paolo Fresco returned to headquarters in Turin with a \$2.8 billion debt restructuring and asset-sale plan. The deal with Banca di Roma, IntesaBci, and San Paolo IMI—

profit in 2004. But analysts say it'll take three years and \$3 billion to \$5 billion to reverse its decline.

Will Fiat sell now or later? Much depends on how much GM would pay. Investment bankers say Fiat Auto would be worth nothing if a buyer had to take on its about \$1.7 billion of debt. The put terms let Fiat and GM each name bankers to negotiate a "fair market price." But time isn't on Fiat's side. "Things will only get worse for Fiat," says a board member.

Fresco could sell healthy group assets—such as insurance, aviation, or energy businesses—and invest the cash in the car unit. If management can stem losses by 2004, Fiat might be able to command as much as \$3 billion from GM, bankers say. But to get that much, Fiat needs to prove there are buyers for its cars instead of an ever-shrinking market. Trouble is, Fiat Auto CEO Giancarlo Boschetti is deferring investments in new models to stop the bleeding.

Fiat executives can't dither indefinitely. Under the June 2 accord with its banks, Fiat has to slash net debt to \$2.8 billion by yearend, from \$6 billion today. If Fresco fails, the banks can force an asset sale. The banks can also trigger a rights issue that

would convert the just-restructured \$2.8 billion debt into stock, giving them about 25% of Fiat's shares. "There is discipline," says one Italian banker involved, adding that Fiat has roughly \$10 billion in salable assets.

The restructuring forces tough decisions on controlling shareholder Gianni Agnelli, 82, whose family owns 30.5% of Fiat. He has long opposed exiting autos, a 103-year-old family business. But faced with "losing everything," as one banker put it, the ailing patriarch recently gave the green light to Fresco to sound out GM. "If GM offers a good price, the deal is done," says one Milan investment banker. The risk of Fiat's fortunes sliding further might just get GM to the table.

By Gail Edmondson in Rome



IN TURIN: GM could be forced to buy the 80% stake in Fiat Auto it doesn't own by 2004

to which Fiat owes \$13 billion—may yet stave off the dreaded downgrade.

But Fiat's financial problems are hardly over. Many of them come from Fiat Auto—and those may soon belong to General Motors Corp. GM bought 20% of Fiat Auto in 2000 for \$2.4 billion and granted Fiat a put option—the right to sell GM the rest—as of January, 2004. Now GM faces a big dilemma. It's short of cash, so a big acquisition would be a serious burden. But if GM waits until 2004, it could be stuck with an even bigger lemon.

Fiat Auto has been careening downhill since GM bought its stake. It lost \$1.3 billion in 2001 and is expected to lose another \$1 billion this year. Management forecasts breaking even in 2003 and making a slight

CREDIT CARDS

THIS EARNINGS MACHINE HAS ENGINE TROUBLE

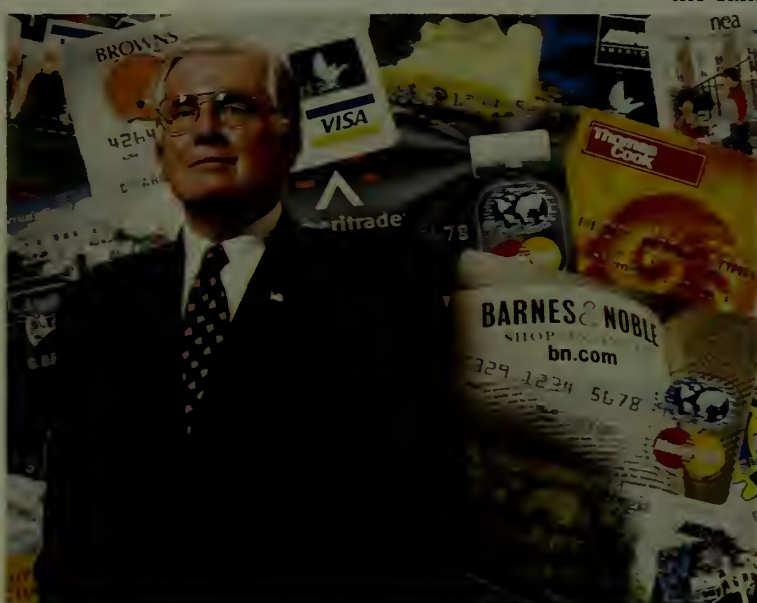
Credit-card giant MBNA's market isn't boundless after all

For eight years, MBNA Corp. has defied the laws of gravity. Confronting naysayers, the Wilmington (Del.) credit-card giant has delivered annual earnings gains of 25% or better. Its secret: affinity programs, where MBNA teams up with such organizations as the National Education Assn. or the Cincinnati Reds to issue cards bearing their logos.

Through such partnerships, MBNA has created an earnings juggernaut with \$98 billion in loans, 15% of the U.S. credit-card market, and the second-lowest rate of bad loans in the industry.

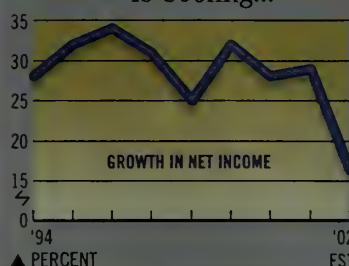
But it looks like 2002 could be the year MBNA falls to earth. Its portfolio is now so large that it's hard for the company to add accounts at the same pace. Growth in the market is cooling off, and fewer regional bank-card portfolios are for sale—a significant factor in MBNA's recent growth. Analysts also warn that MBNA's big bet on international markets, begun in 1994, may be slow going. "The rate of growth will have to come down," says John P. Waterman, chief investment officer at Rittenhouse Financial Services Inc., whose funds hold MBNA shares.

That reality, along with worries about slowing consumer spending, seems to be weighing on MBNA's stock, which trades at around \$36. It has been more or less flat for the past couple of years despite the company's strong earnings gains. Moshe Orenbuch, an analyst at Credit Suisse First Boston, notes that MBNA's price-earnings ratio based on projected 2003 earnings is about 13.5: That's roughly 70% of the overall market multiple and somewhat less than the 85% the company has seen historically.



THE JUGGERNAUT SLOWS

MBNA's Torrid Growth Is Cooling...



...And the Stock Is Moving Sideways



Data: Company reports, Friedman Billings Ramsey Group Inc., Bloomberg Financial Markets

MBNA President Charles M. Cawley acknowledges the growth challenge: "It gets tougher for us every year," he says. Friedman, Billings, Ramsey & Co. financial-services analyst Todd A. Pitsinger figures net income will be up 16.3% this year, to nearly \$2 billion. While that's certainly respectable—and in line with the 15%-plus growth that Cawley and Chairman and CEO Alfred Lerner, owner of the Cleveland Browns, have targeted since taking the company public in 1991—it's well below what Wall Street has come to expect.

For years, analysts have warned that MBNA's growth could stall. The company defied such predictions by attracting large numbers of low-risk, free-spending

borrowers. But the credit-card market expected to slow to 6%-to-7% growth from double digits in the '90s. Plus, more customers have cards with fixed rates, which the company can raise or lower with 30 days' notice. However, the fluctuations tend to lag changes in the rates that MBNA must pay to finance receivables. Last year, its cost of funds fell faster than the rates it charged customers, giving earnings a boost. But the same phenomenon will work against MBNA if rates rise later this year.

Cawley isn't giving up on U.S. expansion. He figures that despite critics' pessimism, there are still plenty of new affinity groups to sign up. All the same,

CAWLEY: "It gets tougher for us [to maintain high growth] every year"

slowing domestic growth is encouraging MBNA to push hard into foreign markets. It has beachheads in Britain, Ireland, and Canada. On May 14, MBNA got approval to open an operation in Spain, its first in Continental Europe. Right now, just 11% of the company's portfolio is outside the U.S. MBNA Senior Executive Vice-President Bruce L. Hammonds figures that can grow to 20% over the next five years.

But while MBNA has seen major success in Britain, expansion in Continental Europe may be slower. That's because British consumers use credit cards much the same way Americans do, carrying outstanding balances, but many Continentals still pay off balances automatically each month. "The challenge will be to change consumer behavior," says Gary Stibel, principal at New England Consulting Group.

Cawley admits that MBNA has a marketing job ahead of it in Europe. But he notes that the card giant has done better before. Half of British cardholders pay their balances in full each month when MBNA started there eight years ago. Now, just 10% of MBNA's customers do.

The one thing MBNA won't do, he says, is become overly aggressive to juice its earnings growth rate. "We grow at our own pace," he says. The question now is how much that pace might slow in the years ahead.

By Amy Barrett in Philadelphia

Developments to Watch

ED BY
RAEBURN

BETTER RESONANCE ROUGH CHEMISTRY

ONLY 30 YEARS AGO, SCIENTISTS at Iowa's Ames Laboratory helped improve sonar concocting an alloy that sounded louder and more "pingy" to be heard easily above the noise ship. Now, another set of Iowa scientists is bringing that material to the consumer as a gadget that can turn any hard, flat, smooth surface into a speaker.

The key is something

called Terfenol-D, made by Etrema Products of Ames, Iowa. It's a blend of iron and two rare-earth elements, terbium and dysprosium, known for their supermagnetic properties. When electricity is passed through the alloy, it changes shape, with movements powerful enough to vibrate a window, desktop, or file cabinet.

The first consumer product to use Terfenol-D was intro-

duced on June 3.

Called the Soundbug, it is a \$49.99 device about the size of a computer mouse that can plug into a Sony Walkman or an MP3 player. When it's fastened by suction cup to a hard surface, the surface radiates sound.

Jon Snodgrass, chief scientist at Etrema, foresees other products. One idea is to embed Terfenol-D in the mouthpieces used by undersea divers. Radio signals would activate the alloy, which in turn would subtly vibrate the diver's jawbone, enabling him or her to hear outside messages.

Michael Arndt

KING DEADLY AIM AT MALARIA

DO GROUPS OF RESEARCHERS HAVE DEVISED NEW DRUGS FOR treatment of malaria that may be more effective and cheaper than existing medications.

One new class of drugs, synthetic peroxides, has been developed by the University of Nebraska Medical Center, Monash University in Australia, the Swiss Tropical Institute, and Hoffmann-La Roche, as part of an international partnership called the Medicines for Malaria Venture (MMV). Such drugs work like a bomb that goes off when it's in or next to a malaria parasite, says Dr. Chris Hentschel, CEO of MMV.

Separately, Dr. Henri Vial of France's Montpellier University II has seen promise with a drug called G25, which may stop new outbreaks and be expensive to produce.

Malaria, a drug-resistant disease endemic in many poor regions, causes more than 1 million deaths a year, according to the World Bank. Researchers say the synthetic peroxides will be ready for human trials early next year, and G25 in two years. Karin Pekarchik



BLOOD CELL WITH A MALARIA PARASITE

DOPS! LONG IENT

A YEAR-OLD WOMAN was taken to the hospital for treatment of cerebral aneurysms—weakened blood vessels in the brain. Doctors examined her and sent her to room.

The next day, she was taken into cardiology, of all places, where a doctor had inserted a catheter into her

heart before someone noticed he had the wrong patient. The procedure was stopped; the patient recovered.

In the June 4 *Annals of Internal Medicine*, Dr. Mark R. Chassin and Dr. Elise C. Becher of New York's Mount Sinai School of Medicine review this incident—which did not occur at Mount Sinai—and argue that mistakes like this need more attention. "Institutions underreport such procedures, and the medical literature contains

no discussions about them," they write. "Of all the errors we make in delivering health care, this case surely represents one of the most disturbing."

Part of the problem here was that two patients had similar names. But Chassin and Becher found that 17 individual errors contributed to the mistake. The key to correcting the problem, they say, is better teamwork and communication—among hospital staff and with patients. ■

WATCH FOR WEASEL NUMBERS IN MEDICAL STUDIES

EVER WONDER WHY SO MANY medical studies discover spectacular benefits from new drugs? Maybe it's because researchers report the numbers in a way that makes them sound better than they should.

That's the concern of Dr. Jim Nuovo, professor of family and community medicine at the University of California at Davis. In a study published in the June 5 *Journal of the American Medical Assn.*, Nuovo looked at 359 studies from leading medical journals and found that only 18 of them reported results in terms of absolute risk reduction. The rest reported only relative risk reduction—which can sound far more substantial.

Here's an example from Nuovo to explain the difference: Suppose an existing drug cuts the rate of heart attacks in men to 5%. A new drug cuts that risk to 4%. In terms of relative risk, that's an impressive-sounding 20% improvement. In absolute terms, however, there's only a one-percentage-point difference. The risk has gone from low to slightly lower—which doesn't sound very impressive, especially if the new drug costs 10 times as much as the existing drug.

Nuovo's point is that all of these numbers, and more, ought to be reported in every study. "There's no one number that explains everything in an article," he says. "Once you start putting things into context, you start getting a better picture." Proposed guidelines for clinical trials call for researchers to report absolute risk reduction along with relative risks, Nuovo says, but those guidelines are often ignored. Editors should require authors to follow them, he says. ■



NIMBLE.

By using a portfolio management approach
we can react quickly,
no matter which direction the energy market goes.

At TXU, we've developed a business model that lets us manage everything from production to trading to retail. With this strategy we'll be able to capitalize on the rapidly changing energy markets while still protecting ourselves from vulnerability. We've invested in our future, and now is a good time for you to do the same. For more information call 1-800-828-0812 or visit us at www.txu.com.



BusinessWeek

Investor

MAKING LIFE RICHER

**The Housing
Market:
High Prices.
High Risk?**



■ Vacation Homes
Are Hot, Too

■ A New Take on
Real Estate Stocks

■ Barker: Insure
Against Oil Hikes

House Prices: More Down-to-Earth?

Some signs say the runup is losing steam

BY CAROL MARIE CROPPER

Since spring of last year, the U.S. dipped into recession, suffered terrorist attacks, and watched as the stock market sputtered. Against that backdrop, the median price for single-family houses climbed 7.1% nationally between last April and this, according to the National Association of Realtors (NAR). In some markets, the gains were astounding: Los Angeles, up almost 18% since March a year ago; Washington, 20%; New York, 21%; and Providence, R.I., 19%.

House prices have become either a horror story or a cause for celebration—depending on whether you're buying or selling. The relentless escalation stalled only momentarily after September 11. The numbers marched higher again in the first quarter of this year.

Even San Francisco—where prices rocketed 40% between 1999 and 2001 and then fell as the nation's woes combined with the region's dot-com sorrows—has taken off again, say local real estate agents such as Joseph Koman. One of his clients, Tom Murphy, a journalist who lost his job in the dot-com shakeout, got six offers for his four-bedroom Victorian house this April. The turn-of-the-century home went for \$66,000 more than its \$549,000 asking price.

Such runups trounce what investors have seen in the stock market lately—a fact that escapes no one. Murphy owned a weekend house as well. As his tech stocks soared in the late 1990s, he wondered whether he should have so much money tied up in real estate. "Now I'm glad I did," he says.

But can the gains continue? Or are those pouring money into home and hearth in for the same disappointment suffered by tech investors?

First, note that the truly outsize gains have come in only a handful of markets—mostly metropolitan areas in the Northeast and in California. The 7.1% increase from last April to this was a lot better than the measly 2% gain in family income during the same time and the 1.6% inflation rate. Housing prices can diverge from income and inflation trends, but generally not for long.

The runup doesn't seem so shocking, considering that the average annual gain since 1968 has been 6.3%, according to the NAR, and



the recent leap came as mortgage rates dipped to their lowest since the late 1960s. Then, too, many argue that the NAR's numbers exaggerate gains since they do not adjust for the fact that houses are now larger, and therefore prices are more affordable than a decade ago, in light of interest rates and incomes, according to NAR's index.

At least they are nationwide. Few economists argue that housing prices are heading for a crash. More likely is a slowing in the annual increase—to perhaps 3% to 4% for the next 12 to 18 months as interest rates nudge higher and prices take a breather to allow demand to catch up.

REAL ESTATE

SALE



But anyone who lived through the 1991 recession knows that real estate can plunge in specific markets—and that declines tend to come in the very places that run up most in the boom years. Los Angeles saw prices drop 21% between 1991 and 1996. New York and Boston dropped, too. Ingo Winzer, president of *The Local Market Monitor*, which analyzes real estate in about 100 markets, cites San Francisco and San Jose as two areas in danger of a fall. Real estate both is overpriced, based on the historic ratio of local income to price, vs. the nation as a whole, he says, and each has lost jobs. The same could be said for New York. Job losses eventually led to more home sales and outward migration, increasing supply and pushing prices down. Add Boston to the watch list, says Kenneth Fennell, chairman of the Fisher Center for Real Estate at the University of California at Berkeley's Haas School of Business. But he thinks prices will probably just grow more slowly unless

the economy drops back into recession and mortgage rates, currently about 6.8%, move above 8%. If both happen, prices in such areas could plummet 10% to 15%, Rosen says. Otherwise, real estate tends to correct by stagnating or rising slowly after quick runups.

Why did prices jump so much in the first place? Low interest rates, for starters. But demographics and a more accommodating mortgage industry may be as important. A flood of immigrants entered the country beginning in the late 1980s and became established enough to start buying houses just as baby boomers headed toward their peak home-owning years, says David Berson, chief economist at Fannie Mae. Home ownership rises with age and is actually highest among the 65-plus crowd.

At the same time, mortgage lenders, sensitive to complaints that minorities were being locked out of home ownership, eased up on credit terms. Fannie Mae now accepts mortgages where borrowers put nothing down as long as they pay an amount equal to 3% of the loan in the form of closing costs. Compare that with the 10% and 20% downpayments of the late '80s. The rule limiting mortgage payments to no more than 28% of gross monthly income has also fallen away. Fannie Mae tells lenders to ignore that old standby ratio and focus instead on the applicant's credit history and the loan-to-home-value ratio.

As money became easier to borrow, people had more of it, too. Family incomes rose 44% in the '90s. And some investors pulled cash out of the stock market to buy homes. The result: a bigger percentage of a bigger group all wanting to buy homes. Home ownership in the U.S. soared to an historic high of 67.8% last year, up from 65.7% in 1997.

Supply couldn't always grow to accommodate this increased demand. Regions such as San Francisco and the New York suburbs had little undeveloped land. Construction restrictions tied to concerns over sprawl or the environment often added to the squeeze. As a consequence, the supply of homes for sale dropped to just over 4 months of demand, compared with the normal 5 to 6 months. Predictably, tight supply made for a competitive market. Supply has since loosened a bit.

While near-term increases aren't expected to match the gains of the past, economists say demographics should then hold prices roughly in line with disposable-income gains during the coming decade. That's expected to be 5.5% to 6%, says Berson. Over time, prices have risen at a rate 1% above inflation, notes Doug Duncan, chief economist at the Mortgage Bankers Assn.

So, housing may be another sector, like stocks, where a downshift in thinking may be required about a likely return. But nothing has really changed. Housing will continue to be a not-so-liquid investment that promises steady returns over time. Just how much depends on your timing—and location, location, location. ■

In the past year, U.S. real estate has climbed 7.1%—much more in some big cities. But in the coming 12 or 18 months, gains may amount to only 3% or 4% nationwide

SEASIDE, FLA.
IS A MECCA FOR
SOUTHERNERS



Snapping Up Second Homes

Demographics and Wall Street's woes make for a superheated market

BY
SUSAN SCHERREIK

Want to buy a vacation home? Join the crowd. From Montauk (N.Y.) to Monterey (Calif.), the second-home market is on a tear. "Sales of resort condos and single-family houses around the country have been strong for the past five years, and we see no signs of slowing," says Earl Lee, president of Prudential Real Estate Affiliates in Irvine, Calif. Second homes in the U.S. sold for a record high median price of \$162,000 last year, up 27% from 1999, according to the National Association of Realtors.

Low mortgage rates are stoking the boom, but there's more. A dreary stock market is prompting some to snap up second and even third homes to diversify their investments. Demographics is also a factor, with baby boomers hitting middle age, when people traditionally buy a second residence. In addition, a fear of flying is prompting some who used to splurge on overseas vacations to use the dough for a getaway they can reach by car.

Since September 11, the hottest second-home markets are in resort areas that are a tank full of

gas from big cities. They include tony environs like the Hamptons on Long Island (N.Y.), well as lesser-known areas like the Outer Banks of North Carolina, Florida's Gulf Coast, and New Hampshire's White Mountains. Resort-home prices in these areas are up 10% to 40% in the past year, local brokers say. On the Outer Banks barrier islands, prices for beach houses in upscale towns such as Duck have jumped about 25% since last summer, thanks to an

flux of buyers from the Washington area. Similarly, Susan Spica, owner of Prudential Lake Ozark Realty in Lake Ozark, Mo., says her company has sold more resort condos in the first five months of this year than in all of 2001, many professional couples from nearby St. Louis and Kansas City. Meanwhile, Seaside, Fla., on the northwest Gulf Coast, is increasingly popular with families from Alabama, Georgia, and Texas.

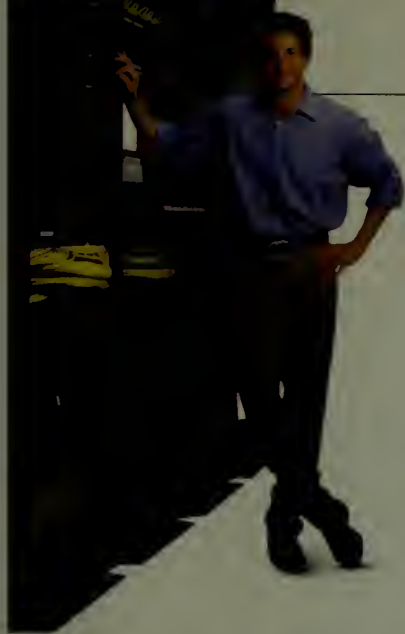
Is it too late to find a great deal? Not necessarily. Sure, the market is frothy, but with millions of baby boomers set to retire in the next three decades, housing in prime spots will only get pricier. And many desirable resort areas



TO LET: Rental rates aren't keeping pace

REAL ESTATE

WebSphere software



- 1 This is the **MANAGER**
- 2 That placed the **Order**
- 3 That went through **Accounting**
- 4 That commissioned **Sales**
- 5 That notified **Engineering**
- 6 That provisioned the **Circuits**
- 7 That connected the **Service**
- 8 That satisfied the **Customer**
- 9 That concluded the **Process**
- 10 That lives in the **Business Integration Software**
- 11 That we built **Together.**



CrossWorlds has joined with IBM to provide comprehensive business integration from your first step to the finish. Our technology powers WebSphere® to not only just connect your applications — but make all your processes work together. For the whole story, visit ibm.com/websphere/crossworlds





OUTER BANKS: Since last summer, prices have risen around 25%

have a limited amount of land available for new development, which should keep vacation home prices firm.

A second home may be especially affordable for empty nesters who have built up equity in their primary residence. Realtors in resort areas say many recent buyers are couples who trade down to a smaller

dwelling, then use the profit to finance a weekend home where they may eventually retire. That strategy has been popular since 1997, when tax laws changed so that married couples no longer have to pay capital-gains tax on the first \$500,000 of profit when selling their primary home.

Don't buy a resort home just because you think today's strong price gains will continue. If interest rates rise later this year, as some economists expect, second-home demand could slow. Also, vacation homes are luxury items that owners dump in severe economic downturns. So pick a place you'll enjoy returning to often. Investment considerations should be secondary.

Before buying, rent a vacation home to get a feel for the community. Find out which type of properties are easiest to rent or resell. On Cape Cod (Mass.), condos aren't as popular as traditional New England clapboard houses. In New Hampshire's White Mountains, Joy Tarbell, a real estate broker in North Conway, recommends prime properties on lakes and golf courses because they are easiest to sell.

In Taos, N.M., adobe-style homes are hot. So when Donnie Michael of Midland, Tex., purchased an adobe-style fixer-upper 18 months ago, he figured he wouldn't lose. Michael—who spends long weekends in Taos with wife Karen and three-year-old son Cade—has spent some \$50,000 on renovations. He reckons the house, for which he paid \$250,000, is now worth \$350,000.

Local realtors can help you estimate maintenance and other costs. Homeowner's insurance

rates, for instance, could be stiffer if the property is more than six miles from a firehouse. You might also need to arrange for driveway plowing or to have repairs made when you're not there.

If you need rental income, take a hard look at what you can earn. In many of the hottest markets, rental rate hikes haven't kept pace with home prices. In the Outer Banks, buyers who rented out their homes during the summer used to count on annually grossing an amount equal to 10% of the purchase price, local realtors say. But with rents continuing to rise 3% to 5% annually while home prices have climbed around 25% in the past year, rental income is proportionally less. Also, count on paying 10% to 40% of rental income to a management agent who arranges rentals and maintenance.

Still, renting out a vacation home can be lucrative. Five years ago, Janice and Barry Broderick of Duxbury, Mass., purchased a \$58,000, two-bedroom condo in Bartlett, N.H., for family weekends. Three years later, they wanted more space, so they bought a three-bedroom condo in Bartlett for \$109,000. Instead of selling the smaller unit, they opted to rent it out year-round, earning \$13,000 last year after management fees.

"It didn't pay to sell," Janice says. Another plus: The two-bedroom condo has doubled in value since they bought it.

Whether you rent or not will determine your mortgage payments. If you plan on keeping your vacation

home to yourself, you'll obtain the same rates you would with a first mortgage, says Keith Gumbinger, a vice-president at HSH Associates, which tracks mortgage rates. If you count on rental income, you may pay up to one percentage point above prevailing rates for primary residences. Second-home buyers with good credit can put a 5% to 10% downpayment on a vacation home, vs. 3% to 5% for a primary residence.

Becoming a landlord will affect your tax bill. You owe no taxes on rental income if you rent for fewer than 15 days a year. If you rent for 15 days or more, however, you must report the income. Although you can deduct rental-related expenses, the Internal Revenue Service rules

governing what you can deduct are complex. If you personally use the place for more than 14 days, or 10% of the number of days rented, the IRS considers it a personal residence and you can only deduct a pro-rata share of rental-related expenses based on the number of rented days. If you limit personal use to 14 days, or less than 10% of the days rented, you can deduct more of those expenses.

Buying a second home can be tricky. But if you're smart about it, you'll wind up with a getaway that's also a dream investment.

REAL ESTATE

What's Hot in Vacation Homes

AREA	PAST 12 MONTHS APPRECIATION*	WHAT'S ON THE MARKET	ASKING PRICE
LAKE OF THE OZARKS Missouri	13%	3-bedroom lakefront condo with boat slip	\$175,000
LEECH LAKE Minnesota	10	3-bedroom, 2-bath lakefront house	\$300,000
NORTHWEST GULF COAST Florida	15	4-bedroom, 3-bath, single-family home on the gulf in swank Seaside	\$3.4 million
OUTER BANKS North Carolina	25	6-bedroom, 5½ bath ocean-front home	\$1.25 million
WHITE MOUNTAINS New Hampshire	12	3-bedroom house with dramatic views of Mt. Washington	\$600,000

*Based on data from the National Association of Realtors, June 2002. Prices are estimates and may vary.

small business software:
\$300

2000 sq ft downtown:
\$5000/month

fax machine & photocopier:
\$800

earning points you can use to get a new officemate:
priceless

© 2001 MasterCard International Incorporated

Every time you use your MasterCard BusinessCard® with Business Bonuses™, you earn points good for anything, anywhere you see the MasterCard® logo. (Even a new furry friend.) Other credit cards limit you to airline miles or make you pick something out of a catalog. With MasterCard, you're the boss of your own rewards program. Call 1-866-444-BONUS or visit mastercardbonus.com to enroll.



there are some things money can't buy.  for everything else there's MasterCard.™

Only available through participating banks. Certain restrictions and limitations apply.



The Right Broker For the Job

Only a few real estate agents are likely to fit your bill

BY CAROL MARIE CROPPER

When Steve Murray put his house on the market two years ago, he had no trouble finding a broker eager to take the job. Four different firms competed to list his \$420,000 Denver home, with three offering to accept less than their usual commission to win his business. In just 20 days, Murray had a buyer—paying the full asking price.

Just because brokers are jumping through hoops to sign you up in these days of speedy sales doesn't mean you should rush into a decision. Marketing a home for maximum price, then evaluating multiple offers (which can happen now) takes a certain sophistication.

There's no dearth of real estate salespeople in any given area. But most homes are sold by the go-getter minority—and you want to enlist one of them. Take the time to interview two or three. Ask how many houses like yours they have sold in the past year, and get names of former clients. You don't want to list a luxury home with an agent who deals with young buyers and entry-level houses or, worse yet, someone who sells an occasional property as a sideline.

Most agents will bring along a comparative market analysis—a look at what homes like yours have sold for recently. Don't simply go with the one suggesting the highest asking price. Brokers know you'll be tempted to do that and may steer you to an inappropriately high number to win your business. That could turn into a big mistake as your property languishes on the market for months.

Get a marketing plan describing what the broker will do to sell your house, advises Julie Garton-Good, author of *Real Estate à la Carte: Selecting the Service You Need, Paying What They're Worth* (Dearborn Trade, \$17.95). It need be only one page. Don't worry if a weekend open house isn't part of that plan. Open houses do more to drum up prospective clients for the agent than they do to find a buyer for you, says Garton-Good. Unless you go with a discount broker (one that charges less but may require you to show the house yourself, for example), make sure the property will be listed in the local Realtor association's Multiple Listing Service, a constantly updated list of properties that goes to member brokers.

Look for an agent savvy enough to suggest ways to make your house more appealing, from repairing the driveway to removing clutter and storing furniture that makes your rooms seem smaller. Ask yourself if this is a person capable of leveling with you about such (sometimes sensitive) problems. Pick someone you'll feel comfortable talking to for the next three months and who you think will be honest—then call the state licensing agency just to make sure.

Speaking of three months, that's the longest contract you'll normally want to sign. Find out how long houses in your area are taking to sell and try not to go much beyond that.

Cost has become one of the negotiating points. With houses selling quickly, for more than ever before, and with a dearth of inventory in many areas, brokers are competing for listings. Murray, as a co-editor of the real estate newsletter *RE Trends*, had an edge when he got an agent to list his house for a 4% commission. Such discounts are common these days, he says.

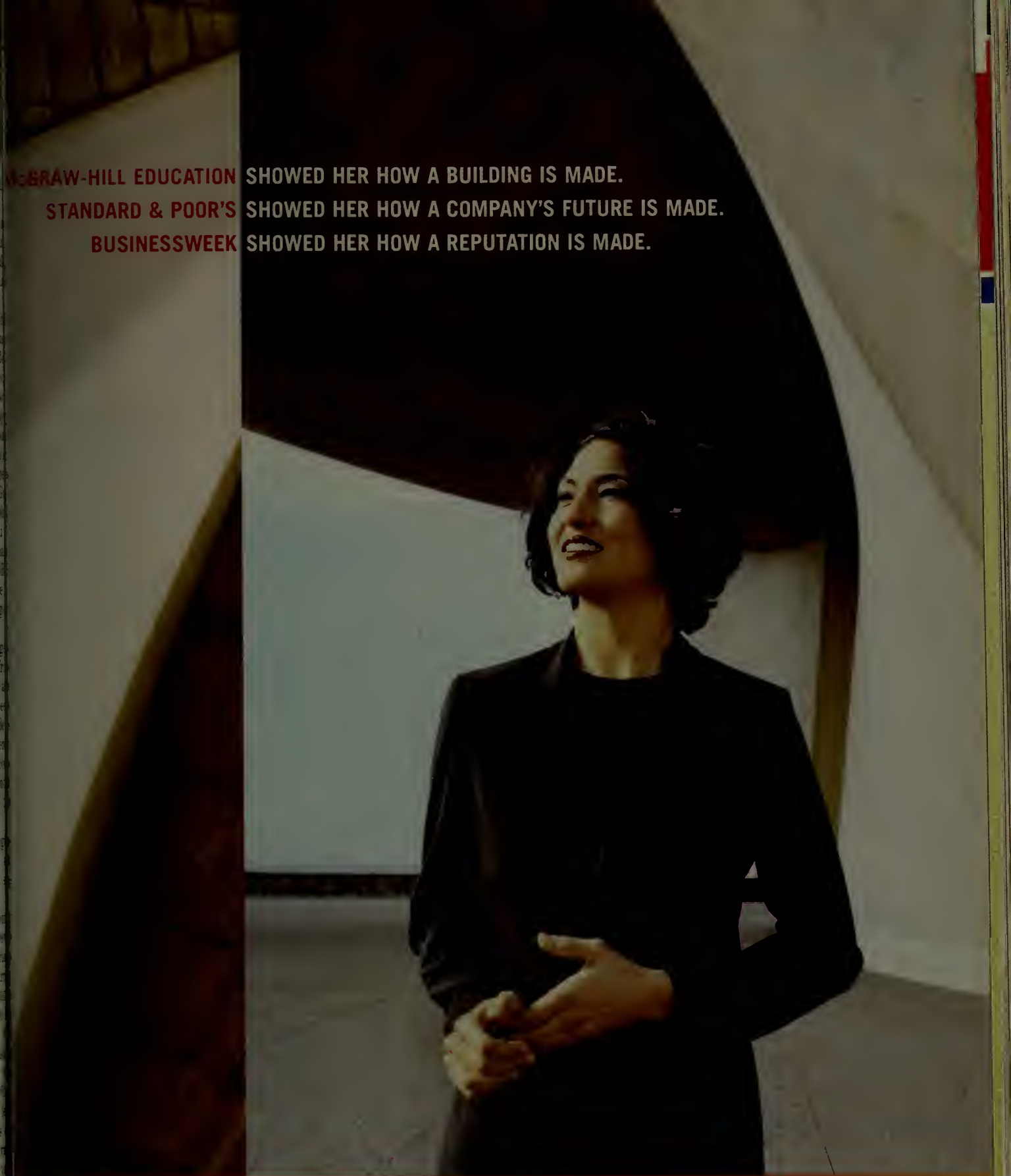
In 1992, the average commission was 6.1%. Now, Murray says, it's 5.4%.

If you get a broker to take less, make sure the difference comes out of his or her pocket—not the half that traditionally goes to the broker who brings you a buyer. You don't want to build in a disincentive for others to show your property. (And, of course, your broker could get it all by being the one to find the buyer.)

Tens of thousands of dollars are often involved. Even more is at stake for you. This isn't one of those times when your wife's slacker brother will do.

REAL ESTATE

Ask how many houses like yours the contender has sold lately, and get the names of previous clients



McGraw-Hill Education SHOWED HER HOW A BUILDING IS MADE.
STANDARD & POOR'S SHOWED HER HOW A COMPANY'S FUTURE IS MADE.
BUSINESSWEEK SHOWED HER HOW A REPUTATION IS MADE.

The McGraw-Hill Companies

From finance to business and education to human resources, you can imagine
The McGraw-Hill Companies provides information that is critical to helping you to build your

www.mcgraw-hill.com NYS E MHP

Education

STANDARD
& POOR'S

BusinessWeek

platts

AVIATION WEEK

McGraw Hill
CONSTRUCTION

Not Your Usual Real Estate Trusts

Michael Winer discusses his fund's unique angle



“The best time to be investing is when things are looking a little bleak... REOCs are able to be more opportunistic at those times because of their ability to retain cash”

BusinessWeek online

For the complete interview, go to the June 17 issue online at www.businessweek.com

Portfolio manager Michael Winer's Third Avenue Real Estate Value Fund is an odd bird. It's the only mutual fund to invest primarily in Real Estate Operating Companies (REOCs) instead of Real Estate Investment Trusts (REITs), which every other real estate fund buys. The differences in their financial structures give REOCs an edge, Winer says. So far, his bet has paid off: As of May 31, his \$322 million fund has the best three-year annualized return—17.85%—out of 115 real estate funds tracked by Morningstar. Personal Finance Editor Lewis Braham recently caught up with the 46-year-old Winer in his New York office to discuss his strategy.

How is your fund different from other real estate funds?

Primarily, it's our focus. Our investment objective is long-term capital appreciation, whereas most real estate funds are seeking the dividend yield that REITs throw off. REITs usually make up only 10% to 20% of my portfolio.

Why do you prefer REOCs over REITs?

Since real estate is a capital-intensive business, access to capital or the ability to retain capital is precious. REOCs are structured like any other operating company, so they can retain all of their cash flow. REITs have a special tax status, which requires them to pay out 90% of their taxable income as dividends. That gives REITs attractive yields, but it also makes it difficult for them to invest in their businesses. Thus, they have to access the capital markets, especially the equity markets, in order to grow.

That must especially hurt REITs during a weak real estate market.

Right. They're not always able to access capital, and the best time to be investing in real es-

tate is not when the markets are hot and REIT stocks are high. The best time to be investing is when things are looking a little bleak and there are more opportunities. REOCs are able to be more opportunistic at those times because of their ability to retain cash.

After a three-year rally in real estate stocks, both REITs and REOCs, how hard has it been for you lately to find good values?

I am still finding values, but they're not as good as they were three years ago. Back in 1997 and 1999, we could find stocks trading at a 20% to 30% discount to their underlying real estate value. Today, my portfolio is trading at a 10% to 15% discount. The REIT market, by contrast, is trading in a range between a 5% discount to a 5% premium. That isn't cheap, but it's still much better than in 1997, when REITs were trading at 30% premiums and were grossly overpriced.



How dependent on a U.S. economic recovery are real estate stocks?

When the economy enters a recession, the effects aren't felt immediately. There's a lag to the downturn because tenants of retail, office, and industrial real estate tend to have long-term leases, five years to 10 years. Provided the tenants don't go bankrupt, they're still going to pay rent whether they are profitable as they were before or not. That's why, as leases expire, there will be vacancies if companies decide not to renew their leases.

there are currently higher vacancy rates in every property sector, and rents have fallen, but those are temporary effects. People should invest in real estate for the long term.

I've heard that the housing market is an endangered sector right now. Do you see any evidence of a pricing bubble there?

We did have a substantial portion of the fund's assets invested in homebuilder stocks until about a year ago. We probably exited too soon, but at that time, I thought homebuilder stock prices were at a level that couldn't be sustained. We were entering a recession, yet the companies were selling more homes than they had before the slowdown.

A lot of that growth stemmed from the interest-rate cuts last year. Mortgage rates are now at or near historic lows, so it is relatively inexpensive to buy a home. But if we see some spikes in those rates, I think the run will be over.



DISTANCE LEARNING 2002

Target 5.4 million prospects worldwide*

with BusinessWeek's Distance Learning Advertising Directories.

It's an ideal opportunity to introduce innovative new programs to a worldwide professional audience and expand your sphere of influence.

To learn more about flexible advertising opportunities, contact:

Telephone:	1 800 424-3090
Fax:	1 312 464-0512
E-Mail:	patrice_serret@businessweek.com

Issue Date:
August 5, 2002
December 2, 2002

Closing Date:
June 24, 2002
October 14, 2002

Editions: **North America and International**

Reserve Space Now

*2001 Fall MRI; BusinessWeek estimate for international.

BusinessWeek

www.businessweek.com

The McGraw-Hill Companies



maximize

*the effective, reliable way to
natural male enhancement*

ENZYTE™
(suffragium asotas) capsules

the pleasure

Quality Assurance. Enzyte is 100% safe and all natural, consisting of the highest quality ingredients. Each bottle of Enzyte is packaged to meet the highest standards and is fully backed by our Customer Satisfaction Guarantee (CSG).

Ask your doctor if Enzyte is right for you, then visit us on the web at www.enzyte.com, or call us directly, and get started today: 1-877-4ENZYTE (1-877-436-9983).

Enzyte Mail Order (packaged and shipped confidentially) BuWk0502

Please Print

Name	Phone ()
Address	Apt.
City	State Zip

1 Month Enzyte Supply	\$ 99.95
2 Month Enzyte Supply	\$ 199.95
Full 3 Month Enzyte Supply	\$ 239.95
*Plus get one free Enzyte (3 month) 2 month maintenance supply)	
Certified Pack and Ship (Product 307)	\$ 19.95

• Restricted Data Processing/Secure Data Systems: Assures Customer Confidentiality • Sterile Pack: Insures No Package Tampering • Sales Tax (applicable to each state) • Expedited Rush Shipping: Product Guaranteed to Ship Within 48 Hours of Received Order	<table border="1"> <tr> <td> • Domestic Expedited \$10.00 • Air Mail International \$15.00 </td> <td>\$</td> </tr> <tr> <td> • Cash Enclosed • Funds Only </td> <td>\$</td> </tr> </table>	• Domestic Expedited \$10.00 • Air Mail International \$15.00	\$	• Cash Enclosed • Funds Only	\$
• Domestic Expedited \$10.00 • Air Mail International \$15.00	\$				
• Cash Enclosed • Funds Only	\$				

Method of Payment: ☐ M/C ☐ VISA ☐ AmEx. ☐ Discover ☐ Money Order

Credit Card Number: Exp. Date:

Healthcare, Inc., Customer Care-Order Processing, Building Box 42

any. **Study results based on customer response.

Cincinnati, OH © 2002, Lifekey Healthcare, Inc. All rights reserved.

A CUSHION FOR OIL-PRICE SHOCK



BY ROBERT BARKER

rb@businessweek.com

Investing in a few energy stocks or mutual funds can help offset the risk to your portfolio of a wider war in the Mideast or Asia

Among the many things I don't know: where stocks, interest rates, and the dollar are headed. Also, the future price of oil. One thing I do know: Each day's news makes me more worried about a wider war in the Mideast or Asia. War, and the risk that it will make oil more costly, are dangers to most portfolios—but ones that too few investors are protecting against.

Numbers tell me this is true. Twenty years ago, when energy stocks were hot, they made up more than 16% of the value of the Standard & Poor's 500-stock index and 5 of the top 10. Now, they're down to 7%, and just one, ExxonMobil, is in the top 10. Investors are so skeptical of energy companies that when the ordinarily contrarian researchers at Morningstar last year drew up a list of 50 stocks to buy (at the right price), not one energy name made it.

You also can see investor apathy toward energy in the news—or, rather, in what's not news. Take a recent example about Schlumberger, the oil-services giant. Twenty years back, it was a glamour stock, a Cisco Systems of the oil field whose CEO became the subject of a long, loving profile in *The New Yorker*. Now, not even *The Wall Street Journal* found room for a brief mention of Schlumberger's May 21 announcement that it will spin off a technology unit.

So I set out to shop for some oil insurance—that is, energy investments to protect a portfolio against higher oil prices. As with auto or home

insurance, I wasn't looking for big potential gains. In fact, I would hope not to have to make a "claim" on this "policy." Nor did I look for the cheapest quote. With insurance, that can prove foolish if the discount underwriter collapses beneath a ton of claims. I just wanted financially strong stocks that would rise with oil prices.

Using Value Line's screening software, I searched for energy issues with market value of at least \$5 billion, total debt of no more than one-third of capital. I asked, too, for positive free cash flow and a dividend yield of at least 2%, a bit more than the average stock or money market fund now pays.

The result? Just three stocks. One, Halliburton, was cut because of peculiar risks: It's coping with asbestos liabilities, while regulators are investigating its accounting. That left BP and ExxonMobil (table). Next, I checked how each stock moved over six trading

days in mid-May, when oil prices jumped above \$29 a barrel from near \$26. Both stocks gained about 4%. Finally,

for a different perspective, I spoke with Standard & Poor's oil analyst Tina Vital. Between BP and ExxonMobil, she favors Exxon as the more credible operator. "It has always delivered on its promises" of production growth, she told me.

Buying just one or two stocks doesn't satisfy many people, however. So, in search of a diversified hedge against higher oil prices, I also went out to shop for mutual funds. Again, I was looking for big capital gains that an active manager would hope to produce. So I focused on exchange-traded funds that replicate energy stock indexes. I found three possibilities (table). Based on cost, Energy Select Sector SPDR Fund looks like a good choice. At a recent price of \$26.50 a share, it yields 1.4%.

If you think oil is going up, there are more aggressive ways to speculate. Veteran energy analyst Charley Maxwell of Weeden & Co., who forecast last fall of higher oil prices this spring, proved correct, favors North American producers with assets in Canada's Athabasca tar sands. Among them: Suncor Energy and Imperial Oil. If, however, the future of oil is on your list of unknowables, yet you find it has become a persistent worry, try giving your portfolio some insurance instead.



Where to Find Oil Insurance

STOCKS/ SYMBOL	PRICE*	DIVIDEND YIELD	PRICE GAIN, MAY 7-14
BP BP	\$50.07	2.7%	4.0%
ExxonMobil XOM	39.08	2.4	3.8

EXCHANGE-TRADED FUNDS/SYMBOL	PRICE	EXPENSE RATIO	TOP 3 HOLDINGS	PRICE GAIN, MAY 7-14
Energy Select Sector SPDR XLE	\$26.50	0.28%	ExxonMobil, Royal Dutch Petroleum, Schlumberger	3.3%
Dow Jones U.S. Energy Sector Index IYE	46.15	0.60	ExxonMobil, Chevron- Texaco, Schlumberger	3.6
S&P Global Energy Sector Index IXC	53.05	0.65	ExxonMobil, BP, TotalFinaElf	2.7

*as of June 3

Data: Company reports, S&P Comstock, Value Line, Morningstar.com

BusinessWeek online

For barker.online, go to
www.businessweek.com/investor/ and click on "Column"

Voices of Vision

Tune in to a television documentary
about Junior Achievement
and how it's changing
the world.

Unfold the past,
explore the present
and look into
the future.

See JA's impact
on young people
and the free
enterprise system.

Check local
Public Television
listings for day and time.



www.ja.org

Produced by



Sponsored by



GE Capital

It may be the only vacation where you come back richer.

INVESTMENT STRATEGIES



Ken Shea
Managing Director
Standard & Poor's
Gain a unique market perspective through the influential S&P 500 index and the favorite sectors and stocks from S&P's team of analysts.

ECONOMIC FORECASTS



Seymour Zucker
Senior Editor
BusinessWeek
Hear views on the economy and benefit from insights acquired from decades of economic and market coverage.

PROFITABLE PORTFOLIOS



Joel Friedman
Director of Standard & Poor's Mutual Funds Services
A review of S&P's current mutual fund recommendations as well as how to make them part of a highly profitable portfolio.

Investment Seminar at Sea

Aboard the award-winning Crystal Symphony 11-day luxury cruise, Nov. 29 to Dec. 10, 2002
Visiting Tortola, St. Maarten, St. Barts, Aruba, Costa Rica with Panama Canal transit



Limited Space.
For reservations,
call toll-free
1-866-468-5700.



Deluxe Stateroom with Verandah

Deluxe Staterooms
start at \$2,795 per person*

Deluxe Staterooms with Verandah
start at \$4,310 per person*

SEMINAR REGISTRATION FEE
only \$495 additional per person
or \$895 additional per couple



GREAT AMERICAN TRAVEL

Call toll-free 1-866-468-5700

businessweek.greattravel.com

*Cruise fares including port charges based on double occupancy. Call for airfare add-ons. Seminar only available with cruise purchase. All categories subject to prior sale. Ship's registry.

A NATURAL FOR HEINZ



GENE G. MARCIAL

in would give
e giant a boost
organic foods.
lawsuit might
use money woes
Checkpoint.
world oil demand
keep Stelmar
ps tanked up

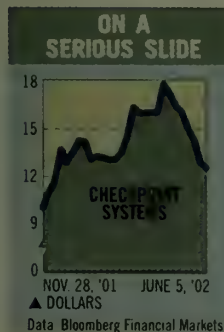
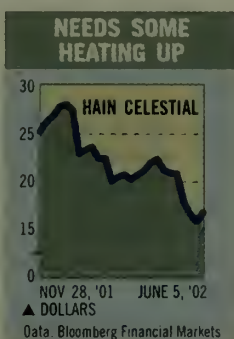
Will H.J. Heinz gulp down natural-and-organic-food giant Hain Celestial Group (HAIN), of which it already owns 18%? Hain stock zoomed from 3 in 1997 to 40 in 2000 but has fallen to 16.76, as the products—among them, Hain Pure Foods, Terra Chips, Soy Smoothie, and Celestial tea—lost their sizzle, and earnings cooled.

Now, certain investment managers have been buying Hain, betting Heinz will make a move soon. "Hain is a natural acquisition for Heinz," says one hedge fund manager. Heinz bought its stake in Hain for \$100 million in September, 1999, when the two companies formed a pact for global production and marketing: Heinz provides procurement, manufacturing, and logistics skill, and Hain does the marketing, sales, and distribution. Hain has more than 1,000 products. With its deep pockets and market cap of \$14 billion, Heinz could easily buy Hain and boost sales and earnings of both Heinz and Hain, argues the hedge fund manager.

Hain recently told analysts that earnings for the fiscal fourth quarter, ending June 30, 2002, will be below estimates, caused in part by building costs at its Terra Chips plant in New Jersey. Carole Buyers of RBC Capital Markets, who doesn't own shares, estimates 2002 earnings at 56¢ a share and 2003 at 84¢, vs. 70¢ in 2001. She gives Hain stock a neutral rating, based on fundamentals. Nevertheless, Buyers has upped her 12-month price target from 18 to 21. CEO Irwin Simon says Hain is in good shape and doesn't need to look for partners. "But we have a good relationship with Heinz, and we'll do whatever is best for shareholders and the company." Heinz declined to comment on market speculation.

TROUBLE LOOMS FOR CHECKPOINT SYSTEMS

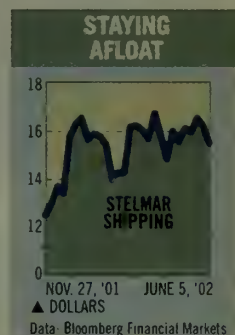
Shares of Checkpoint Systems (CKP), which makes electronic anti-theft tags used by retailers, have dropped from 18 in April to 12.50 lately, in part because of an unseasonably warm winter, which dampened apparel sales. But don't expect the stock to rebound soon, say some pros: The stock may well keep tumbling, because of an antitrust lawsuit that Checkpoint lost. The suit, brought by ID Security Systems of Canada, claimed that Checkpoint interfered with ID's contracts to sell its own anti-shoplifting tags and that Checkpoint used its clout to delay ID's launch. In late May, a U.S. District



Court in Pennsylvania assessed damages of \$26 million. Jeffrey Kessler of Lehman Brothers, however, says total damages, including legal fees, will balloon to \$79 million. In 2001, Checkpoint's net income was \$21.5 million. He has downgraded the stock from buy to a neutral rating. The verdict could put Checkpoint in violation of bank covenants on 1999 bank loans, he says. Even if Checkpoint appeals and puts off paying damages, accountants may require it to acknowledge the potential damages in its financial statement. Therein lies the problem: It had borrowed \$273.9 million from banks. Those loans have covenants that might be violated, says Kessler, such as putting any new debt on its balance sheet. The covenants also require Checkpoint to have a net worth of \$200 million. Its current net worth, he figures, is \$240 million, and the damages it will have to pay will bring it below required levels. Kessler thinks the banks won't call in the loan, since Checkpoint is up-to-date in its payments. Kessler's concern: Checkpoint has to renegotiate terms with lenders, which will probably mean higher rates. One fund manager, who is shorting Checkpoint shares, sees the stock falling to 6 or 7. Checkpoint didn't return calls.

FULL SPEED AHEAD AT STELMAR

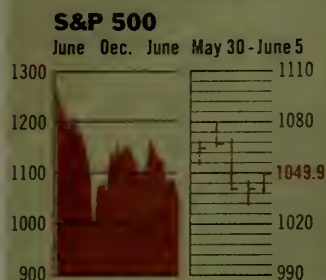
Despite depressed freight rates, volatile oil prices, and the Middle East imbroglio, tankers could be attractive value plays. So argue some pros who have been buying shares of Stelmar Shipping (SJH) of Athens, a Big Board-listed operator of vessels for crude and refined petroleum. Stelmar's stock has stayed afloat, rising from 12 in mid-November to 15.56 on June 5. James Winchester of Lazard, which co-managed Stelmar's secondary stock offering in April, rates this "high-quality, small-cap value play" a buy. It's positioned to build value in the next 18 to 24 months, says Winchester, who does not own stock. "The geopolitical conflicts favor Stelmar," says CEO Peter Goodfellow. Future growth, he says, will come from Asia, where more refineries are being built. And growing U.S. demand for oil means more charter business for tankers and longer hauls. Stelmar has 26 ships—only 7 years old, on average, vs. 16 years for tankers in general. Winchester says tough competition will pare 2002's estimated earnings of 2.70 a share to \$1.78 in 2003. But he sees more demand by 2004, as old tankers get scrapped.



BusinessWeek online

Read Gene Marcial's Inside Wall Street Online column Tuesday afternoons at www.businessweek.com/today.htm. And see him Fridays at 1:40 p.m. EST on CNN's *The Money Gang*.

Stocks



COMMENTARY

A report of better-than-expected growth in the service sector lifted the market's spirits on June 5, sending stocks higher. It was the only happy note in an otherwise dismal week. Plagued by concerns about the economic recovery's strength, the S&P 500 and Nasdaq hovered around 52-week lows, falling 1.7% and 1.8%, respectively. The Dow Jones Industrials fell 1.3%.

Data: Bloomberg Financial Markets
Reuters

U.S. MARKETS

	June 5	Week	Year to date	Last 12 months
S&P 500	1049.9	-1.7	-8.6	-18.2
Dow Jones Industrials	9796.8	-1.3	-2.2	-12.3
Nasdaq Composite	1595.3	-1.8	-18.2	-28.6
S&P MidCap 400	514.6	-2.5	1.2	-4.7
S&P SmallCap 600	236.3	-3.1	1.8	1.4
Wilshire 5000	9930.8	-1.8	-7.3	-16.6

SECTORS

	June 5	Week	Year to date	Last 12 months
BusinessWeek 50*	655.3	-1.4	-10.2	-26.7
BusinessWeek Info Tech 100**	327.1	-2.5	-22.0	-34.7
S&P/BARRA Growth	530.3	-0.8	-10.8	-16.9
S&P/BARRA Value	517.1	-2.5	-6.3	-19.9
S&P Energy	214.0	-2.7	1.3	-15.5
S&P Financials	347.4	-2.0	-2.2	-10.9
S&P REIT	101.0	-0.1	8.1	11.2
S&P Transportation	197.7	-0.3	0.4	-6.4
S&P Utilities	127.6	-5.5	-12.5	-34.9
GSTI Internet	80.8	-2.8	-23.0	-43.2
PSE Technology	572.0	-1.9	-16.8	-27.1

*Mar. 19, 1999 = 1000 **Feb. 7, 2000 = 1000

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Networking Equipment	20.9	55.4
Divsfd. Metals and Mining	13.5	48.6
Steel	11.9	43.5
Internet Software	8.4	37.2
Office Electronics	7.3	36.8

GLOBAL MARKETS

	June 5	Week	% change
S&P Euro Plus (U.S. Dollar)	1023.8	-4.1	-
London (FT-SE 100)	4989.1	-2.9	-
Paris (CAC 40)	4079.5	-5.9	-1
Frankfurt (DAX)	4624.3	-5.3	-1
Tokyo (NIKKEI 225)	11,663.9	-1.6	1
Hong Kong (Hang Seng)	11,402.4	-0.2	-
Toronto (TSE 300)	7547.9	-0.8	-
Mexico City (IPC)	6974.9	-2.2	-

FUNDAMENTALS

	June 4	Wk. a
S&P 500 Dividend Yield	1.52%	1.47
S&P 500 P/E Ratio (Trailing 12 mos.)	42.5	43.9
S&P 500 P/E Ratio (Next 12 mos.)*	18.3	19.2
First Call Earnings Revision*	-0.39%	0.11

*First Call Corp.

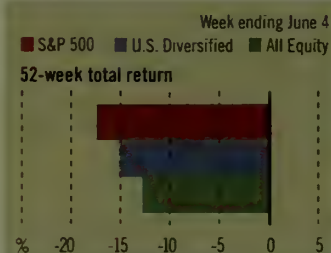
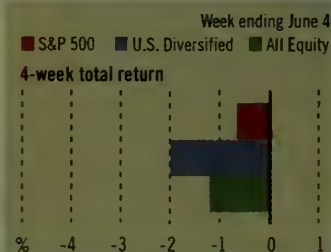
TECHNICAL INDICATORS

	June 4	Wk. ag
S&P 500 200-day average	1113.8	1117.3
Stocks above 200-day average	66.0%	69.0
Options: Put/call ratio	0.80	0.77
Insiders: Vickers NYSE Sell/buy ratio	4.10	4.18

WORST-PERFORMING GROUPS

	Last month %	Last 12 months %
Multi-Utilities	-26.6	Multi-Utilities
Gas Utilities	-16.6	Computer Stge. & P
Oil & Gas Drilling	-13.8	Telecomms. Equipm
Wireless Services	-11.1	Wireless Services
Constr. & Engineering	-10.9	Instrumentation

Mutual Funds



Data: Standard & Poor's

EQUITY FUND CATEGORIES

4-week total return	%	52-week total return	%
Leaders		Leaders	
Precious Metals	15.9	Precious Metals	88.3
Japan	6.2	Real Estate	16.8
Diversified Pacific/Asia	2.7	Pacific/Asia ex-Japan	7.4
Communications	1.3	Diversified Emerging Mkts.	6.8
Laggards		Laggards	
Latin America	-4.9	Communications	-43.0
Small-cap Growth	-4.1	Technology	-40.7
Small-cap Value	-3.9	Health	-25.2
Small-cap Blend	-3.9	Utilities	-24.9

EQUITY FUNDS

4-week total return	%	52-week total return	%
Leaders		Leaders	
U.S. Glob. Wld. Prec. Minls.	30.5	U.S. Glob. Wld. Prec. Minls.	132.3
U.S. Global Investors Gold	23.5	First Eagle SoGen Gold	125.4
AXP Precious Metals A	18.7	U.S. Global Investors Gold	122.2
First Eagle SoGen Gold	17.5	Van Eck Intl. Invs. Gold A	118.6
Laggards		Laggards	
Grand Prix A	-13.3	ProFunds UltraOTC Inv.	-70.3
Amerindo Hlth. & Biotech. D	-12.2	Black Oak Emerging Tech.	-68.6
ProFunds UltraShort OTC	-10.3	World GenomicsFund.com	-66.0
FBR Small Cap Value A	-10.2	Van Wagoner Post Venture	-63.7

Interest Rates

KEY RATES

	June 5	Week ago
MONEY MARKET FUNDS	1.53%	1.52%
90-DAY TREASURY BILLS	1.74	1.74
2-YEAR TREASURY NOTES	3.14	3.16
10-YEAR TREASURY NOTES	5.05	5.07
30-YEAR TREASURY BONDS	5.66	5.63
30-YEAR FIXED MORTGAGE†	6.70	6.76

†BancQuote, Inc.

BLOOMBERG MUNI YIELD EQUIVALENTS

Taxable equivalent yields on AAA-rated, tax-exempt bonds, assuming a 30% federal tax rate.

	10-yr bond
GENERAL OBLIGATIONS	4.22%
TAXABLE EQUIVALENT	6.03
INSURED REVENUE BONDS	4.36
TAXABLE EQUIVALENT	6.23

THE WEEK AHEAD

EXPORT-IMPORT PRICES Wednesday, June 12, 8:30 a.m. EDT ► Import prices in May probably moved up 0.4%, while export prices most likely rose 0.2%. That's based on the median forecast of economists surveyed by Standard & Poor's MMS, a unit of The McGraw-Hill Companies. In April, import prices jumped 1.4%, and export prices rose 0.4%.

BEIGE BOOK Wednesday, June 12, 2 p.m. EDT ► The Federal Reserve Board will release its collection of regional economic activity in advance of the policy meeting scheduled for June 25 and 26.

RETAIL SALES Thursday, June 13, 8:30 a.m. EDT ► Retail sales in May are expected to have risen 0.3%, after surging 1.2% in April. Excluding autos, sales probably increased 0.3% as well, following a 1% jump during April.

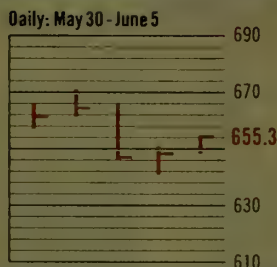
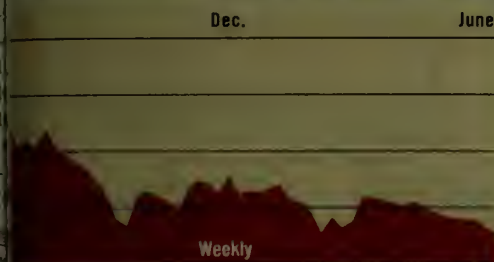
PRODUCER PRICE INDEX Thursday, June 13, 8:30 a.m. EDT ► Producer prices of finished goods in May most likely inched up

by 0.1%, after slipping 0.2% in April. Excluding food and energy, core prices also probably rose by 0.1% in May.

BUSINESS INVENTORIES Friday, June 8, 8:30 a.m. EDT ► Inventories most declined by 0.1% in April.

INDUSTRIAL PRODUCTION Friday, June 9, 9:15 a.m. EDT ► Factory output for most likely grew 0.3%. The average manufacturing rate probably moved up to 7% after rising to 75.5% in April.

BusinessWeek Fifty

THE
BUSINESSWEEK **50**

ell 1.4% for the week. Leading the decline was Tyco International, which lost 18.1% when its CEO allegedly evading personal sales taxes in New York. The threat of lawsuits arising from last year's depressed utility stocks such as Calpine, down 11.2%, and American Electric Power, down 7.0%. downtrend was WellPoint Health Networks, up 5.1%.

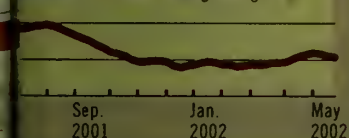
COMPANY PERFORMANCE

Company	% change		Rank	Company	% change	
	Week	Since 3/1/02			Week	Since 3/1/02
Johnson & Johnson	-2.9	-2.1	26	Tenet Healthcare	0.5	27.0
Mac	-0.8	1.2	27	Household International	-1.2	1.3
	-0.1	-14.4	28	WellPoint Health Networks	5.1	25.8
	-1.1	2.8	29	Washington Mutual	-1.8	15.4
orris	2.4	8.9	30	Duke Energy	-6.5	-11.3
cor	-1.9	-10.2	31	Kohl's	2.7	10.8
Mae	-0.3	0.5	32	Bed Bath & Beyond	4.0	7.4
	-1.3	4.8	33	Cardinal Health	-4.8	-3.9
y	-3.4	-1.9	34	Centex	-2.6	-10.8
urceBergen	-4.5	11.2	35	American Electric Power	-7.0	-6.7
Health Group	2.1	26.6	36	Golden West Financial	1.1	9.8
	-1.5	7.3	37	Stryker	-3.7	-13.2
epot	-1.0	-18.9	38	Harley-Davidson	-1.0	2.9
t Stores	0.8	-11.4	39	PepsiCo	2.2	3.0
	3.2	-65.7	40	Merck	-3.8	-10.4
Dynamics	0.5	8.9	41	Apache	-1.6	1.9
Petroleum	-4.0	-5.0	42	Amerada Hess	-3.3	15.7
aboratories	-5.1	-9.7	43	KB Home	-3.9	13.1
(R)	-3.5	-12.1	44	First Data	0.0	-3.3
	-11.2	18.6	45	Tyco International	-18.1	-40.5
tal Petroleum	-1.3	11.0	46	International Game Technology	-1.1	-9.7
	2.4	-5.8	47	Capital One Financial	-2.9	22.7
mes	-3.3	1.5	48	Electronic Data Systems	-2.1	-11.6
n Oil	-5.0	-3.3	49	Nabors Industries	-11.5	10.7
p	-2.7	-6.4	50	Xcel Energy	-3.9	-10.6

Production Index

Change from last week: -0.1%
Change from last year: -6.6%

INDUSTRIAL OUTPUT May 25=161.0 1992=100
The index is a 4-week moving average



n index showed a narrow decline. Before the four-week moving average, the index from 160.6. In the latest week, seasonal-out of electric power fell sharply, with steel all decline. Lumber and rail freight traf-strongly. Coal, crude oil refining, and auto reased at a smaller clip. Truck assemblies aged. The index for all of May slid to 161, ring March.

ech of the index components is at www.business-week.com
Production index Copyright 2002 by The McGraw-Hill

Online Resources

BW 50 Track the index and the companies in it all day long. Plus: our exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time market coverage and investment tools in partnership with Standard & Poor's.

MUTUAL FUNDS Search for funds, view BW ratings, and read Q&A's with fund managers.

COLUMNS Hot stocks, takeover plays, and the latest strategies for managing your money.

BusinessWeek online

For more investment data and the components of the production index, visit www.businessweek.com.

Taking a bold look
at the business
of recovery,
conversion,
and energy
exploration.

A BusinessWeek
Special Advertising Section

Topics covering the
changing face of energy in
the 21st century:

The leading companies
New technologies
Electric-tech ventures
Integrating IT platforms
Global exploration
Environmental stewardship



For advertising information, contact
stacy_sass-mcanulty@businessweek.com
212-512-6296

On sale: August 9
Issue date: August 19/26
Ad close: July 8

BusinessWeek

A Division of The McGraw-Hill Companies

AOL keyword: BW

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Acer 18
Adelphia
Communications
(ADLAC) 57
AIG SunAmerica 10
Alcoa (AA) 36
American International
Group (AIG) 57
Amgen (AMGM) 58
AMP 30
AMR Research 32
Amylin Pharmaceuticals
58
Anheuser-Busch (BUD)
52
AOL Time Warner (AOL)
29, 30
Apple Computer (AAPL)
18
Arthur Andersen 26
AT&T(T) 31
Automotive Resources
Asia 44
Avista (AVA) 38

B

Baltika Brewery 48
Barclays Capital 46
Bear Stearns (BSC) 20,
103
Boeing (BA) 66
BP (BP) 100
Bristol-Myers Squibb
(BMY) 58, 108
Brunswick UBS Warburg
(UBS) 48
Burger King (DEO) 62

C

Capital One Financial
(COF) 84
Carlsberg 48
Centocor 58
Cephalon 58
Charles Schwab (SCH) 78
Checkpoint Systems
(CKP) 103
Chelsey Capital 38
Cherkizovsky 48
Cisco Systems (CSCO)
30, 32, 100
CIT Group (TYC) 30

Cleveland Browns 84
Clifton Gunderson 26
Coca-Cola (KO) 38, 52
Compaq Computer (HPQ)
18, 76
Cordis 58
Credit Suisse First Boston
(CSR) 84

D

David W. Tice &
Associates 30
Dell Computer (DELL) 18,
20, 38, 76
Deutsche Bank (DB) 82
Deutsche Telekom (DT)
18
Dongfeng Motors 44
Dreman Value
Management 30

E

EchoStar
Communications (DISH)
82
Economy.com 60
Edison Schools (EDSN)
38
El Paso Electric (EE) 38
Energy Select Sector (IXE)
100
Enron (ENRNQ) 26, 28,
29, 30, 38, 46, 57, 66
Etrema Products 85
Expedia (EXPE) 38
Exxon Mobil (XOM) 100

F

Fannie Mae (FNM) 38, 88
Fiat (FIA) 82, 83
Fifth Third Bank (FITB) 58
First Union (FTU) 103
Flextronics International
(FLEX) 20
Ford (F) 12, 38, 44, 82
Forest City Enterprises
(FCEA) 96
Forest Laboratories (FRX)
12
Forrester Research
(FORR) 32
Freddie Mac (FRE) 38
Freeport-McMoRan
Copper & Gold (FCX) 57

Friedman Billings
Ramsey 84
Fujitsu 46

G

Gartner Dataquest (IT)
32, 76
Gateway (GTW) 18
Gazprom 48
Geely 44
General Electric (GE) 57,
66
General Motors (GM) 38,
44, 82, 83
Gilead Sciences (GILD) 58
Gimmecredit.com 30
Global Crossing (GBLXQ)
28
Goldman Sachs (GS) 20,
46
Great Plains Software 66
Green Mountain Coffee
(GMCR) 66
Guidant (GDT) 58

H

Hain Celestial Group
(HAIN) 103
Halliburton (HAL) 28, 100
Harris Bretall Sullivan &
Smith 58
Harris Interactive (HPOL)
10
Heineken (HINKY) 48
Hewlett-Packard (HPQ)
18, 76
Hitachi (HIT) 46
H.J. Heinz (HNZ) 48, 103
Hotels.com (ROOM) 38
HSBC Securities (HBC)
46
HSH Associates 90
HTC 18
Hughes Electronics
(GMH) 82
Hyundai Motor 52

I

IBM (IBM) 18, 20
ID Security Systems 103
Imperial Oil (IMO) 100
Intel (INTC) 20, 22, 76

Invesco Asset
Management 46

J

J.D. Edwards (JDEC) 32
Johnson & Johnson (JNJ)
29, 58
J.P. Morgan Chase (JPM)
78

K

KirchMedia 52
Kissinger McLarty
Associates 38
Kleiner Perkins Caufield &
Byers 66
Kraft Foods (KFT) 48

L

Lazard 26, 103
Lehman Brothers (LEH)
30, 31, 78, 103
LG Electronics 18
LNR Property (LNR) 96
Loews Cineplex
Entertainment 96

M

M&M/Mars 8
MBNA (KRB) 84
McDonald's (MCD) 52, 62
McGraw-Hill (MHP) 22,
104
McKinsey 48
Mellon Global
Investments Japan 46
Merck (MRK) 58, 66
Merrill Lynch (MER) 26,
32, 38, 58, 62, 78, 108
META Group 34
Microsoft (MSFT) 20, 41,
62, 66, 75, 108
Military Advantage 32
mm02 18
Moody's Investors Service
(MCO) 46, 83
Morgan Stanley Dean
Witter (MWD) 26, 32, 34,
78, 82
Morningstar 30
Motorola (MOT) 20

N

Navision 66
NEC (NIPNY) 46
Nielsen/NetRatings 8

Nikko Salomon Smith
Barney 46
Nissan (NSANY) 44

O

Oracle (ORCL) 32, 34, 66

P

Perot Systems (PER) 38
Petrosoyuz Industrial
Group 48
Pfizer (PFE) 57, 58
Philip Morris (MO) 38
Portland General Electric
(PGB) 38
Procter & Gamble (PG)
66
Prudential Lake Ozark
Realty 90
Prudential Real Estate
Affiliates 90
Prudential Securities
(PRU) 30, 84
Puma 52

Q

Quanta Computer 18
Qwest Communications
International (Q) 31

R

Rittenhouse Financial
Services 84
Roadway Express (ROAD)
34
Royal Dutch Petroleum
(RD) 100

S

SAIC-Wuling Automotive
44
Salesforce.com 66
Salomon Smith Barney
(C) 38, 78
Samsung 18
Sanford C. Bernstein (AC)
76, 82
SAP (SAP) 32
Schlumberger (SLB) 100
Scottish & Newcastle 48
Scura Rise & Partners 30
Sibneft Oil 48
Sony (SNE) 18, 20, 46
Southern (SO) 28
Standard & Poor's (MHP)
12, 83, 100, 104

Stelmar Shipping (S)
103

St. Jude Medical 58
Sumitomo Chemical
Suncor Energy (SU)
SUN Interbrew 48
Sun Microsystems
(SUNW) 32

T

Tatneft (TNT) 48
Thomson Financial
Call 12, 34, 78
Ticketmaster (TMCS)
Toro 28
Toshiba 18, 46
Toyota (TM) 44, 46
Troika Group 48
Tweedy 90
Tyco International (T)
23, 30, 57, 108
Tyson Foods (TSN) 5
Tyumen Oil 48

U

UBS/PaineWebber (U)
78
UBS Warburg (UBS)
Unified Energy Group
Unilever Group 48
United Technologies
32
USA Interactive (USA)
U S West (Q) 31

V

Value Line (VALU) 11
Vanguard Group 26
Vivendi Universal (V)
VoiceStream Wireless
Volkswagen (VLKAY)

W

Wal-Mart Stores (WM)
57
Walt Disney (DIS) 57
Weeden 100
Williams Energy
Marketing & Trading
(WMB) 38
WinBook 18
WorldCom (WCOM)
Yukos 48

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, al, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. su rate \$54.95/year; Canada: CDN \$69/year. Periodicals postage paid at New York, N.Y. and at additional offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Ag No. 246484. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO. 8032

MARKETPLACE

For Ad Rates and Information
Phone: (312) 464-0500
Fax: (312) 464-0512

Business/Career Opportunities

become a Arrange equipment leases • Factoring • Business of ALL types • No experience needed.

BUSINESS FINANCE CONSULTANT

SEE FOR YOURSELF!
us at www.viewTLC.com where making money is as easy as receiving your E-mail!

RECEIVE A COLOR INFO KIT
AND FREE VIDEO SEMINAR

Loan Consultants, Inc.
1983

CALL 800-336-3933

MAXIMIZE YOUR FIGURE POTENTIAL FROM HOME (part/full time)

26-year-old international, multi-billion dollar technology company with 5A1 D&B rating. For details on our internet based marketing approach, visit: www.myautomaticbiz.com/rd4

Business Services

Need a Logo?

mylogo Get a Professional Custom Designed LOGO TODAY!

MC Amex
1-Free: 1-888-869-5646
www.1800mylogo.com

Email Marketing

Advanced Email Newsletter Campaigns

- High powered delivery system
- Easy Online Interface
- Detailed Reporting and Tracking

1-866-362-4522
www.emailabs.com

BUYING or SELLING???

Businesses and Franchises
Distributorships and Licenses
types, prices, terms, locations

ABC 719-540-2200
bizsale.com
or see
franchise-for-sale.com

Business Credit Reports

In-depth detailed information on 14 million businesses - virtually every U.S. Canadian business...only \$5 each.

Call now...Your First Report is FREE!

BusinessCreditUSA.com
1-Free: 1-888-274-5325

Sales Promotions/Premiums

DIAL AN IDEA

Ideas to Boost Sales and Motivate Prospects



MOTIVATE YOUR CUSTOMERS
to spend more money with high-quality, nationally recognized name brand incentives. Variety of travel options including airfare, land and cruise programs, as well as Merchandise and Rebate offers. Visit www.spirit-incentives.com or call 1-800-860-5880 Ext. 130.

Discount Travel

Las Vegas/New York **CNN**

Discount Hotel Rates Up to 65% Off!

Book Online @ hoteldiscount.com
1-800-310-4821
170 Cities

Golf Shoes

"THE BEST GOLF SHOE I'VE EVER WORN"
- Gene Sullivan

www.gripolf.com
888-887-4711

GRIP
THE SPIKELESS SOLUTION

Financial Books/CD Roms

Determined to improve your financial position?



1-800-234-3445 for a FREE booklet!
www.stowers-innovations.com/freeideas.html

Telecommunication Services

LONG DISTANCE

4.5¢ per min

Incoming/Outgoing 800 Numbers
Low International Rates • T1 Carriers

www.1-800-cucumber.com

Apparel

SIERRA TRADING POST

Your In-Home

OUTLET MALL®

Clothing, Footwear & Gear

FREE catalog 1-800-713-4534

SierraTradingPost.com

Please mention Key Code BW302

Fine Wine Auctions

MORRELL FINE WINE AUCTIONS

On February 23, 2002 Morrell Fine Wine Auctions will offer an awesome collection of mature **GRAND CRU BURGUNDY DRC., JAYER, LEFLAIVE, ROUGET, ETC.**

\$800,000 of impeccably stored wines spanning 8 decades. If you love Burgundy you cannot afford to be anywhere else! To order a completely annotated catalogue, call 212-307-4200 or fax us at 212-247-5242

1 Rockefeller Plaza • NY, NY 10020

Ink & Toner

ink & toner

- \$3.50 shipping!
- \$2 off: enter promo code "BZW11"
- All brands: Alps, Oki, Lexmark, HP, Brother, more!

<u>Hewlett-Packard</u>			<u>Canon</u>			<u>Epson</u>		
51645A	New HP	24 61	BCI-3bk	Orig Canon	13.79	S020189	Orig Epson	23.99
	Refilled cart	17.91		Inkfarm bnd	6.85		Inkfarm bnd	9.99
C6578A	New HP	52.91	BC-3c/y/m	Orig Canon	11.98	S020187	Orig Epson	21.64
	Refilled cart	27.91		Inkfarm bnd	6.85		Inkfarm bnd	10.75
C6578D	New HP	31.91	BCI-21c	Orig Canon	16.99	T009201	Orig Epson	26.36
C1823D	New HP	29.99		Inkfarm bnd	10.75		Inkfarm bnd	16.99
	Refilled cart	22.99						

1-800-INKFARM

inkfarm.com
the ink & toner supersite.™

Education/Instruction

Get Your MBA Through Distance Learning

- Prestigious British University Accredited Under Royal Charter
- One of the World's Largest Distance Learning MBA Programs
- All Necessary Study Materials Provided
- Access To On-Line Facilities
- Support From Local Resource Centers and Student Networking
- Flexible Financing & Payment Plans Available

University of Leicester

Call Today: 800-874-5844
or visit www.rdi-usa.com

rdi

ONLINE GRADUATE PROGRAMS

- Juris Doctor (California Bar Qualified)
 - M.B.A. - Entrepreneurship
 - M.B.A. - Health Care Administration
 - Master of Science in Taxation
- WILLIAM HOWARD TAFT UNIVERSITY**
Quality Distance Education Since 1976

www.taftu.edu

800/882-4555

ABSOLUTELY FREE EVALUATION

Bachelor's -- Master's -- Ph.D. Degrees
Based on life and work experience. Confidential -- Fast -- Student Loans. www.arcc.org
800-951-1203

DISTANCE LEARNING

BA, MBA, MA, Doctoral Degrees
Business, Psychology and Law
Southern California University
for Professional Studies
1840 E. 17th Street, Santa Ana, CA 92705
Since 1978
Education Loans Available
(800) 477-2254 WWW.SCUPS.EDU

STOP STONEWALLING ON REFORM

Each day brings news of yet another business scandal. The latest development is the resignation of L. Dennis Kozlowski, chief executive of Tyco International Ltd., who was indicted on June 4 for evading sales taxes on personal purchases. A day earlier, the Securities & Exchange Commission announced that Microsoft Corp. had improperly allocated funds to financial reserves between 1995 and 1998. The company, which neither admitted nor denied wrongdoing, agreed to not use the disputed practices in the future.

But even as the scandals and distrust spread, Washington increasingly seems to be living in a different universe. Rather than moving quickly to restore investor and worker confidence, Congress is stuck. Reform of the accounting profession, better rules for 401(k) plans, changes in the financial treatment of stock options—all are stalled by legislative gridlock and intense corporate lobbying.

That's wrong and dangerous. We have now seen that the steady stream of corruption revelations is undermining the faith of Americans in their financial system. That's important enough to require rapid action.

There's plenty of blame to go around. The White House, preoccupied with the war on terrorism, hasn't done much to champion reform. The President's conservative economic advisers think strong measures could do more harm than good. House Republicans, who don't want sweeping changes either, have passed weak bills that protect them against the charge of inaction while sparing them from actually backing

effective reforms. Meanwhile, Senate Democrats, who may favor stronger measures, lack the votes to win passage.

Even more damaging is the behavior of business organizations. Rather than acknowledging the need for change, lobbying groups such as the Chamber of Commerce and the National Association of Manufacturers are putting stiff pressure on legislators and the White House to slow down reforms or to back only weak measures. Silicon Valley companies have thrown their full weight into opposing proposals to force expensing of stock options. And even the industry group representing accountants—not the mostesteemed profession these days—has proved potent enough to tie up effective accounting reform.

The latest reform proposal came from the New York Stock Exchange on June 6 (page 29). The NYSE is proposing a variety of new regulations for the companies listed on stock exchange, among them the requirement that a majority of board members be independent of the company and a shareholder vote be held on all stock option grants. Facing opposition from big companies, it's not clear whether the proposal will get the necessary approvals from the SEC and the board of directors of the NYSE.

Before the damage of widespread distrust becomes irreparable, executives have to step up and show leadership supporting necessary reform. That's the best way to maintain the strength of the U.S. economy and financial system—restore trust in business.

THE IRONIC RISE OF STATE AGs

For years, conservatives have made a steady effort to shift power away from the federal government to the state level. One result of this trend has been pressure in Washington to hold down budgets and staff sizes of the enforcement and regulatory agencies. For example, before the latest round of scandals, staffing at the Securities & Exchange Commission had not kept up with the explosion of the financial markets in the 1990s. Meanwhile, a string of Supreme Court decisions have chipped away at federal enforcement powers and strengthened the states.

So it should come as no surprise that, as federal oversight has been weakened, states have stepped in to fill the gap. In particular, the state attorneys general have become a potent force, taking a crucial role in cases such as the antitrust suit against Microsoft Corp., the lawsuit against the tobacco companies, and the investigation of misleading advice to investors by Wall Street brokerages. The latest case: 29 state attorneys general have sued Bristol-Myers Squibb Co., accusing the company of illegally blocking generic versions of Taxol, its profitable anti-cancer drug.

Ironically, most activism by state attorneys general has

been on the liberal side of issues—so far. That may not change with conservative AGs starting to band together as well. The next step may be a wave of AG activism on conservative issues such as pornography and notification to communities of the presence of sexual offenders.

Such freewheeling prosecutorial activity by AGs has pros and cons. They can sometimes do enormous good by taking on issues that aren't receiving enough federal attention. New York State AG Eliot Spitzer uncovered evidence that showed conflicts of interest at Merrill Lynch & Co. and triggered an SEC investigation. But state AGs can also be guilty of grandstanding and politically motivated action and may not have the resources to follow through as effectively as a national regulator.

Perhaps more important, an expansion of enforcement of business and financial rules at the state level is going to create tremendous fragmentation. In a global economy, it's inefficient for corporations to cope with 50 different state AGs enforcing 50 different sets of regulations. In the end, even conservatives may conclude that it was a mistake to weaken national regulation and enforcement.



BusinessWeek

JUNE 24, 2002

www.businessweek.com

CANDALS

OW A
HISTLE-BLOWER
OCKED THE
RUG INDUSTRY

ORD

OB ONE:
OTTER NEW
ARS

ALPERS

UESS WHO
EEDS GOOD
OVERNANCE

VELFARE

HE WAY TO KEEP
EFORM GOING

INVESTING

ANAGING
OUR MONEY
ANAGER

SPECIAL REPORT

Restoring Trust in Corporate America

PAGE 30

#BXBBGD *****CAR-RT LOT**C030
#LBRLP000097 1#3024



BURLINGAME

BURLINGAME PUBLIC L
480 PRIMROSE RD
BURLINGAME CA

JUN 15 2002

LIBRARY

- *Why CEOs Must Speak Up*
- *How Institutional Investors Are Pushing Reform*

e.

not here.

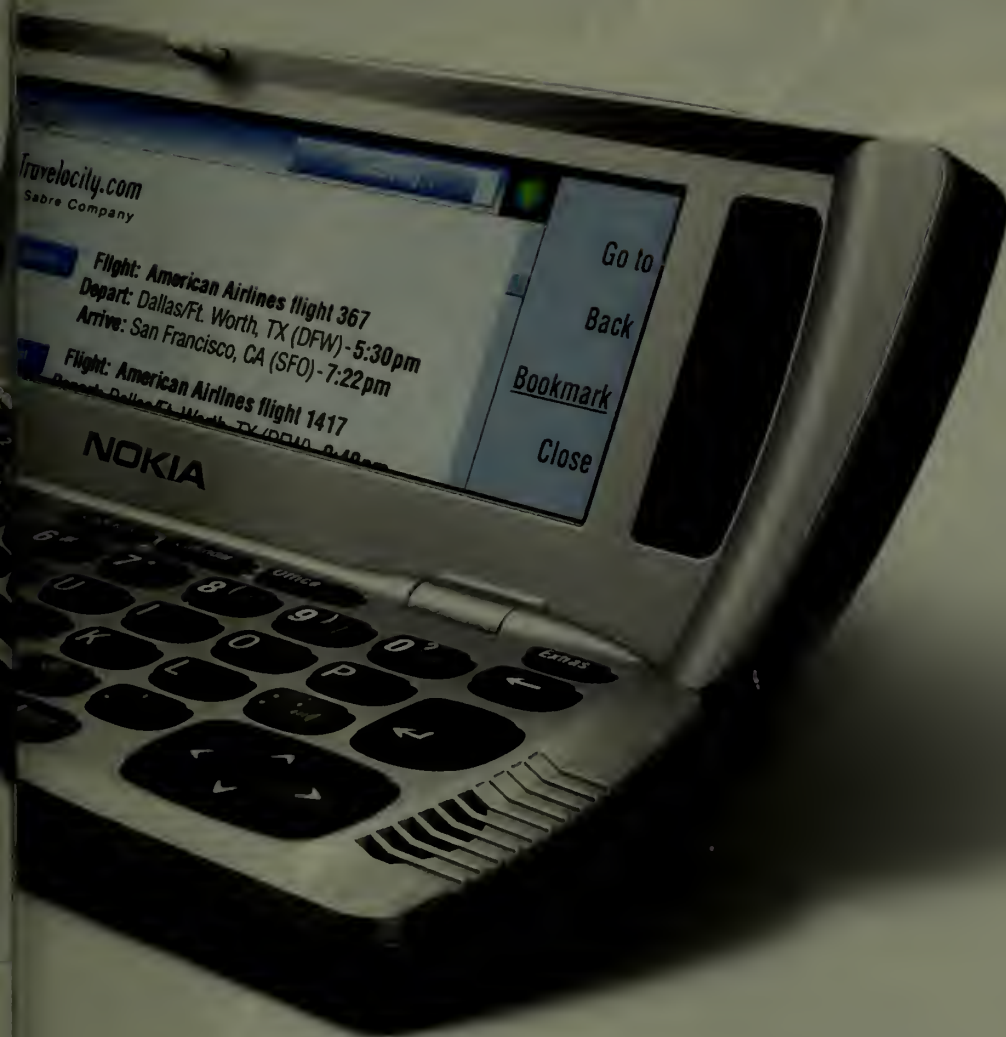
NOKIA 9290

Communicator

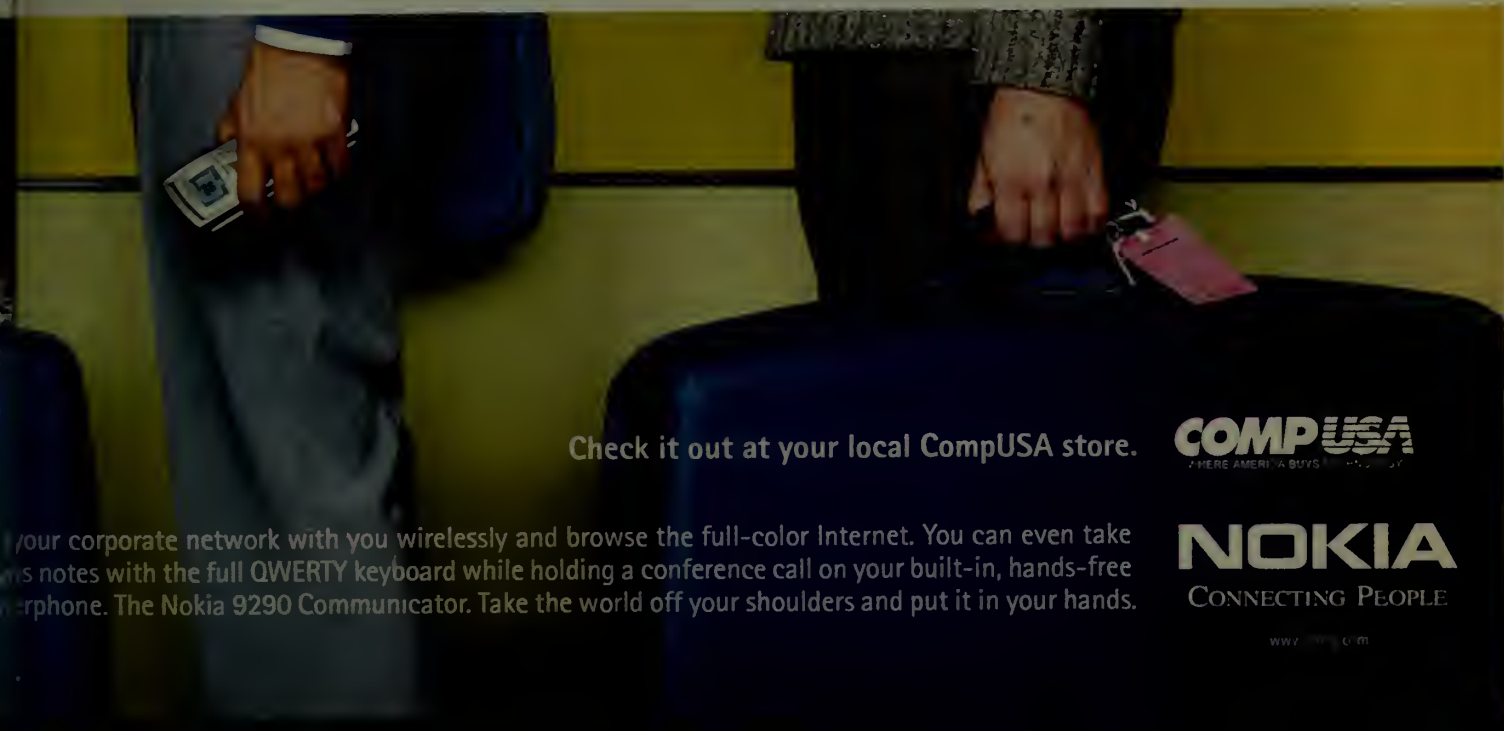
The business trip. The overnight bag. Clothes? Check. Toiletries? Check. Laptop? PDA? Phone?



The ability to do everything. Without having to carry everything. The Nokia 9290 Communicator. It's a laptop. It's a PDA. It's a phone. And it's all in one compact, integrated design. With the Communicator, you can send and receive e-mail with attachments. You can edit Microsoft Word and Excel files and view PowerPoint presentations on the fly. You can drag and drop files from



Check. Check. Check.



Check it out at your local CompUSA store.

COMPUSA
WHERE AMERICA BUYS TECHNOLOGY

your corporate network with you wirelessly and browse the full-color Internet. You can even take notes with the full QWERTY keyboard while holding a conference call on your built-in, hands-free phone. The Nokia 9290 Communicator. Take the world off your shoulders and put it in your hands.

NOKIA
CONNECTING PEOPLE

www.nokia.com



It's the ultimate challenge for a soccer team. And a network team.

With billions watching the FIFA World Cup™, even the smallest communications glitch is a big problem. That's why they chose Avaya to plan, design, and implement one of the world's largest converged voice and data networks. With superior experience in monitoring and managing global networks, our expert services team provides 24x7 worldwide remote monitoring. So they can detect changes at any venue, any time, eliminating the potential for problems. See why over 90% of the FORTUNE 500® power their business with Avaya at avaya.com/network.



AVAYA

OFFICIAL PARTNER

IP Telephony moves into primetime.

First IP network for Fédération Internationale de Football Association FIFA World Cup™ carries 100,000 calls a day and scores cost savings.

Staging the largest sporting event on the planet is big business. It involves scheduling 64 matches in 20 stadiums across Korea and Japan... coordinating hundreds of partners, suppliers and team members... managing logistics for the millions of fans who visit the games in person... and supporting the media teams that transmit coverage to billions more fans around the globe.

As with any big business, communications is at the heart of FIFA's operations. The association's voice and data traffic for the 31 days of the tournament is estimated at 100 times the yearly volume of an average corporation. And according to Doug Gardner, managing director of the FIFA World Cup™ program for Avaya, Inc., a global leader in voice and data networks and applications for businesses, the association demanded a communications network that could be up to the challenge.

Gardner and a team from Avaya successfully met that challenge by designing and implementing one of the best converged networks in the world for the 2002 FIFA World Cup™, linking more than 40,000 network connections across 20 stadiums, two international media centers and two FIFA remote headquarters locations in Korea and Japan. The company also integrated FIFA's software applications — including systems for inventory and logistics, volunteer management, press accreditation, ticketing and accommodations, and tracking team scores.

Since the completed network went "live" in May, it is carrying an average of 100,000 Internet protocol (IP) calls a day, in addition to traditional data traffic. Routing voice calls over FIFA's data network has saved costs and has greatly simplified network administration.

Gardner said the completed network not only delivers a high reliability that FIFA required, but it does so without compromising on features or performance.

"By converging its voice and data networks and using IP telephony, FIFA can access much more functionality," he said. "Users can place calls, hold teleconferences, leave and retrieve messages and access a host of traditional telephony features not only from a telephone—but also from a PC or handheld device."

Like any other large-scale business network, FIFA's converged network supports simultaneous voice, data, fax and email communication. It also provides wireless capability for remote access by the 40,000 volunteers, 12,000 media representatives, coaches and players who need to be mobile and can't be tethered to a desk. Reporters, for example, have ready web access to scores and statistics whether they work from one of FIFA's two international media centers or roam the stadium to cover the games from the stands. Officials can access the FIFA network from personal digital assistants (PDAs). And photographers can send digital images directly from the field to the home office.

The statistics give a snapshot of the network's scope: 10,000 data and communications devices, 5,000 miles of structured cabling, more than 200 routers, 150 wide area network connections, 100 data networking switches, 25 IP communications servers with 7,000 voice endpoints, and 22 enterprise communications servers. To support the network, Avaya has network operation centers in Singapore, St. Petersburg, Fla. and Denver, Colo. that remotely monitor performance around the clock.

"FIFA's network is a real proof point for IP Telephony," Gardner said. "The features, reliability and scalability that businesses require for mass adoption of the technology are no longer on the horizon. They are here now and ready for prime time."

Avaya is an Official Sponsor of the 2002 FIFA World Cup™, the FIFA Women's World Cup 2003 and the 2006 FIFA World Cup™ tournaments.



AVAYA

OFFICIAL PARTNER

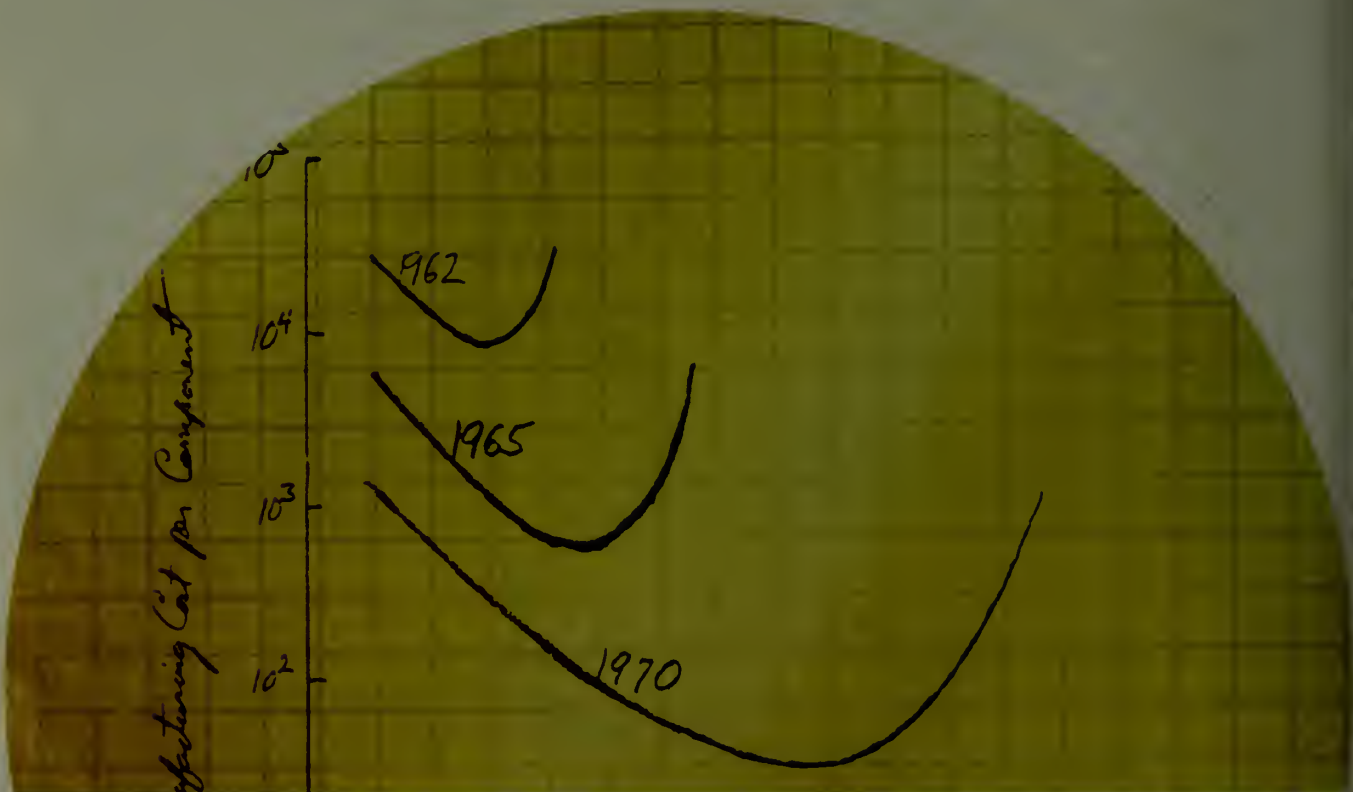
Will Moore's Law stand forever?

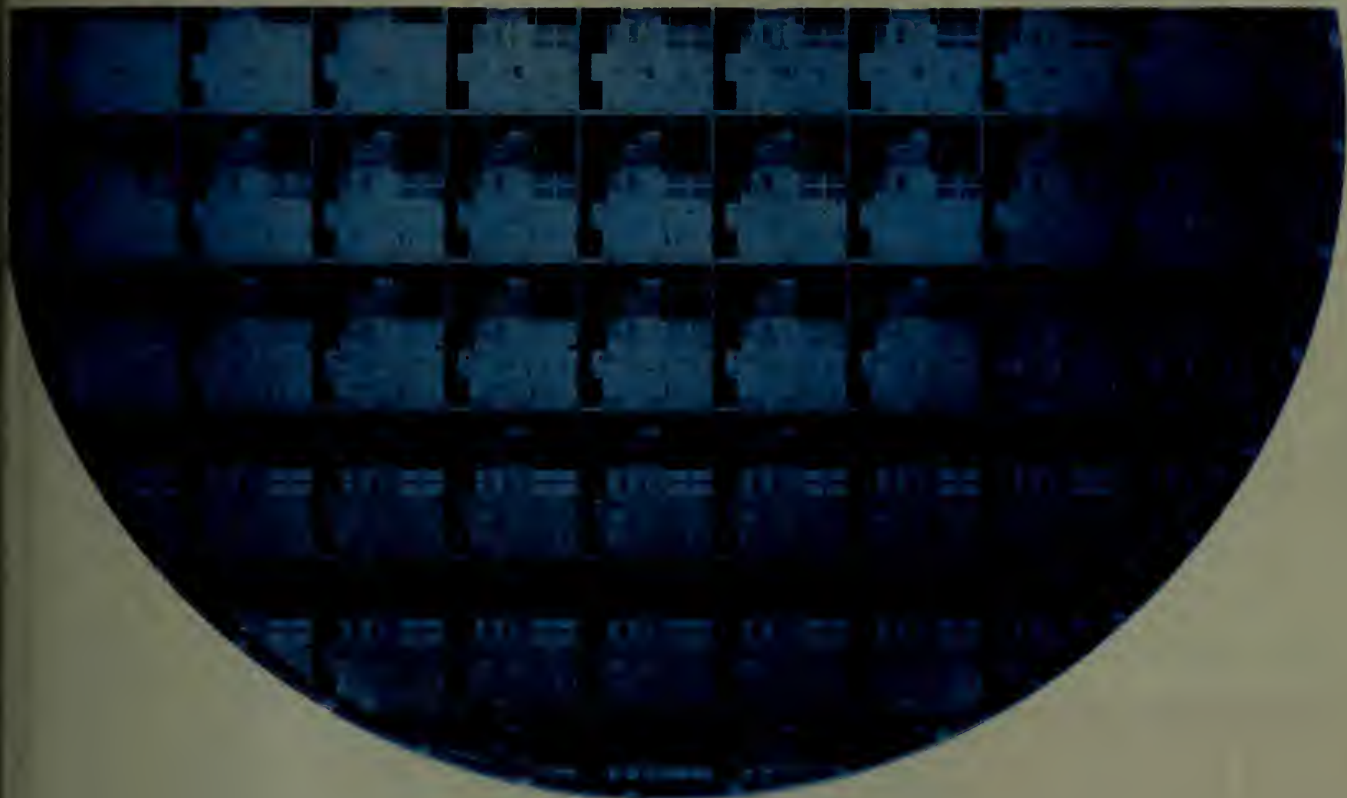
In 1965, Intel's Gordon Moore created a "law" that became shorthand for the rapid, unprecedented growth of technology. He predicted that the number of transistors on a chip would grow exponentially with each passing year.

At the time, even Gordon never imagined it might still be true today.

But Intel has developed new technologies that will allow us to squeeze one billion transistors on a chip (a far cry from the 2,300 on our first processor).

Gordon Moore sketched out the amazing pace of silicon technology development in 1965. His "law" remains valid today.





This wafer represents Moore's Law at work. The Intel® Itanium® 2 processors here hold over 220 million transistors each.

**This isn't science for science's sake.
It's science for your
company's sake. Because as we work
to fulfill Moore's Law, year
after year, companies everywhere can
do more at lower cost.
And that's not just a good law.
It's very good business.**



Sophisticated tools perform tests to ensure the highest-quality processor.



Processor production, constantly monitored by smart machines and smart people.



intel®

COVER STORY

RESTORING TRUST

Corporate America's leaders seem blind to the deterioration in confidence. CEOs must speak up loud and clear page 30

WHISTLE-BLOWER

Doug Durand's win against drugmaker TAP is rocking the industry page 126

BusinessWeek

JUNE 24, 2002



Cover Story

30 RESTORING TRUST IN CORPORATE AMERICA

Rarely have business and its leaders been held in such low esteem. Yet even as the crisis becomes more disruptive for the market and economy, corporations have remained silent. Why don't more CEOs speak up?

36 THE PUSH FOR CHANGE

Pension funds and other institutions are wielding their financial clout

38 BUSINESSWEEK/IPSOS-REID POLL

Investors are still spooked

42 A TALK WITH PAUL VOLCKER

How he sees corporate responsibility

44 COMMENTARY: CAPITAL OUTLAYS

Shaken CEO confidence is hurting spending on equipment

News: Analysis & Commentary

47 WILL WORLDCOM UNLOAD MCI?

CEO John Sidgmore wants to sell the long-distance carrier—but on his terms. That could be tough

48 JETBLUE IN THE CROSSHAIRS

American is gunning for the nimble startup

50 COMMENTARY: SECURITY

The proposed homeland defense superagency is a flawed idea in need of emergency attention

51 IN BUSINESS THIS WEEK

International Business

52 SINGAPORE: TEMASEK HOLDINGS

Can Ho Ching, the wife of Finance Minister Lee Hsien Loong, fix the limping giant?

54 COMMENTARY: PROTECTIONISM

Europe looks askance at a Fortress America that doesn't practice what it used to preach

56 BANKING: BANAMEX

The high-priced buy has turned out to be a surprising success for Citi

58 INTERNATIONAL OUTLOOK

Are Japan's Young Turks about to oust the ruling party's Old Guard?

Economic Analysis

24 ECONOMIC VIEWPOINT: KUTTNER

Tax cuts are the last thing we're going to need

26 ECONOMIC TRENDS

Openness in trade breeds faster growth; a study of multinational polluters; revised job-loss numbers

27 BUSINESS OUTLOOK

U.S.: A lazy summer for t
Brazil: Rates strangle any

64 SECURITY: AN ECONOMIST

William Baumol says too n
homeland security could pu
damper on growth

Social Issues

60 COMMENTARY: WELFARE R

How much will Americans
willing to pay to keep wor
moms off the dole?

The Corporation

66 FORD: WHERE ARE THE HOT

It's going to take time to r
the "product-led renaissance
auto maker is promising

Government

72 NOT SO FAST, MR. ROMNEY

Becoming Massachusetts go
won't be as easy as Mitt in

Science & Technology

78 COMMENTARY: RESEARCH

Are company-funded medic
studies trustworthy?



SLOW START

Ford's planned revival has a hurdle:
A dearth of new models page 66

OR
ately managed
still requires
ch page 142

LE DOLE
esful
program
show of
60



WEIRD SCIENCE

Just how solid is
medical research?
page 78

HAPPY FEW

Some
companies
didn't merely hunker
down and survive
the tech slump, they
made hay page 83



ELOPMENTS TO WATCH
s may make pills obsolete;
ing fat in mice; a way to map
damage of "dirty" nukes

E OF A WHISTLE-BLOWER
g Durand exposed massive
l at drugmaker TAP—and
d up taking home \$77 million

To Tech 100

D TECH'S NEW LOOK
ope and Asia have whittled
n American dominance

ING THE SLUMP PAY OFF
way to get around the
petition is to hoard cash until a
turn. Then when everyone
hits the brakes, hit the gas

D WILL MASTER SERVERS?
Dell grabs share in this
ative market, rivals scramble

T WHAT INFO MANAGERS NEED
business intelligence software

ING FOR CREDIT?
Isaac rates creditworthiness

DEAL DROUGHT
k days for tech services

- 102 **SMALLER CHIPS, BIGGER COSTS**
More chipmakers are outsourcing
- 104 **FINALLY, INTERNET PROFITS**
How dot-coms edged into the black
- 106 **OVERTURE: A CROWDED STAGE**
Can it fight off online ad rivals?
- 108 **STOCK-PICKERS' SHOPPING LIST**
Despite the odds, a few bets
- 124 **SEAGATE GETS ITS GROOVE BACK**
It wants to go public again

Finance

- 132 **THE TROUBLE WITH CALPERS**
Does the huge pension fund need a governance lesson?
- 134 **CIT'S BOSS IS A SURVIVOR**
Can veteran Al Gamper rescue CIT from the Tyco chaos?
- 138 **A DIZZYING DIVE FOR JANUS**
Fleeing investors and the down market have cut its assets in half

BusinessWeek Investor

- 142 **ONE FOR THE MONEY**
How to get the most out of your separately managed account

- 146 **KEEPING THE HOUSE COVERED**
Insurers are getting choosier about whom they'll cover
- 150 **WANT OUT OF YOUR CAR LEASE?**
Web sites can help find someone who'll take it over
- 151 **HERS: TODDI GUTNER**
The pay gap is getting wider again. Needed: More salary disclosure
- 152 **THE BARKER PORTFOLIO**
Panera's dough may have risen too far
- 159 **MARCIAL: INSIDE WALL STREET**

Features

- 12 **UP FRONT**
- 16 **READERS REPORT**
- 20 **BOOKS**
Bossidy and Charan: *Execution: The Discipline of Getting Things Done*
- 23 **WILDSTROM: TECHNOLOGY & YOU**
WiFi: Revolution turns into confusion
- 160 **FIGURES OF THE WEEK**
- 162 **INDEX TO COMPANIES**
- 164 **EDITORIALS**



www.businessweek.com
America Online Keyword: BW

Updated every business day at www.businessweek.com



Visit the BusinessWeek 50 area of our site for news, investing tools, and more at www.businessweek.com/bw50/

VIDEO VIEWS

Original streaming video featuring industry experts and BW editors

■ RIGHT AND WRONG:

Vanderbilt B-school dean Bill Christie brings lessons in ethics to MBAs



■ MORAL DILEMMA:

Getting ethics high on the corporate agenda: a BW Roundtable hosted by Mark Morrison



TOOLS

■ YOUR PORTFOLIO:

Check on the health of your investments



■ STOCK SCREENER:

Use more than 70 criteria to pan for gold among the equities



■ **MBA SEARCH:** Which is the right business school for you and your needs?



INTERACTIVE FORUMS

■ Join in ongoing discussions on investing, business schools, and more—or start your own

HANDHELD EDITION

Put us on your hand-held! Get news from Daily Briefing, S&P data, and more. Visit AvantGo.com to sign up



Find quick links to everything on this page at the June 24, 2002, issue's table of contents online, or go directly to www.businessweek.com/magazine/content/02_25/online.htm

Nowhere to Hide

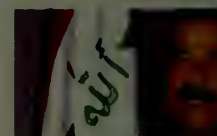
Special Report on Privacy: The many post-September 11 surveillance upgrades—and ever-savvier hackers—are giving faceless snoopers the upper hand. Plus, is privacy vs. security a bogus debate? And more



DAILY BRIEFING Business and investing news, commentary, and analysis

www.businessweek.com/bwdaily/

Affairs of State: If Saddam is finally toppled, filling the vacuum in Baghdad may not be that hard



INVESTING In partnership with Standard & Poor's

www.businessweek.com/investor/

Street Wise: The U.S. now has plenty of “operating leverage”—it can mean explosive earnings growth is at hand

SMALL BUSINESS A resource for entrepreneurs

www.businessweek.com/smallbiz/

Savvy Selling: Done wisely, e-mail can be an effective sales tool—without a junk-mail stigma



TECHNOLOGY State-of-the-art coverage of info tech

www.businessweek.com/technology/

Tech Knowledge: S&P thinks Keithley Instruments will reemerge as a favorite of investors



B-SCHOOLS BusinessWeek's exclusive rankings and profiles

www.businessweek.com/bschools/

News: At IAE in Buenos Aires, a B-school is getting a crash course in dealing with a national fiscal crisis

GLOBAL BUSINESS In-depth coverage of Asia, Europe, and Latin America

www.businessweek.com/globalbiz/

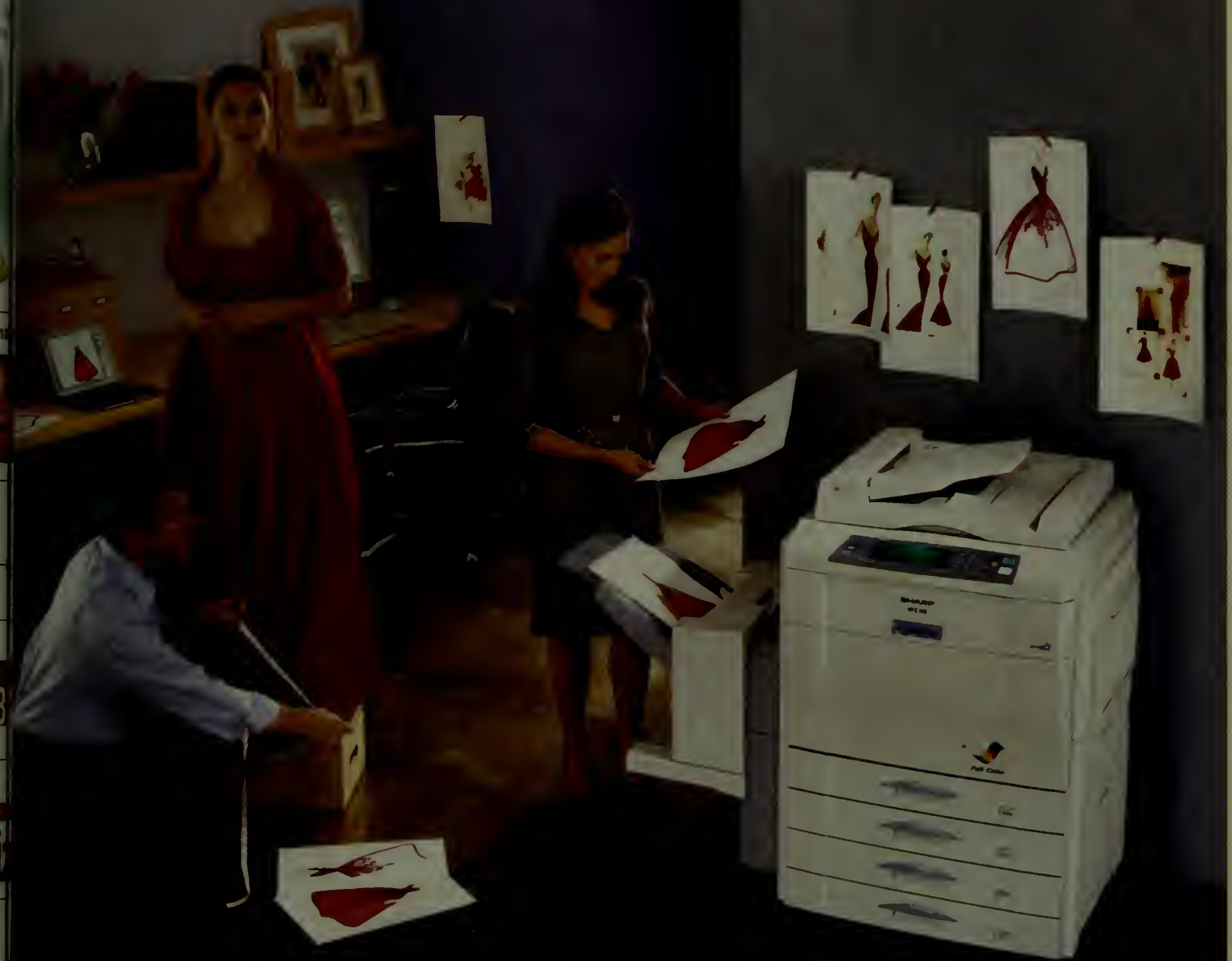
Online Asia: Sure, dictators can make trains run on time. But if China is any guide, getting wireless standards right is much harder

CAREERS Advice and tools for upper-management job seekers

www.businessweek.com/careers/

Book Excerpt: In *Managing for the Short Term*, Chuck Martin writes about recruiting and keeping key employees companies need

Your passion.



Perfected.

Product shown is the AR-C160. ©2002 Sharp Electronics Corporation

Digital Color Copier/Printer
True-to-life color
High speed output
Office user friendly

Where technology and creativity converge. Whether you're designing new fashion lines or creating eye-catching proposals, Sharp has the digital color solutions that bring big ideas to life. Sharp's Color IMAGER Series features advanced copier/printers that connect to your desktop to deliver rich, vibrant color, reliably and affordably. The closest thing to perfection, for those who demand nothing less. sharpusa.com

SHARP | be sharp™

Up Front

EDITED BY SHERIDAN PRASSO



FINE PRINT

COVERING YOUR BEHIND AT TYCO

IT MAY JUST BE INTRIGUING coincidence. But a retention agreement that then-Tyco International General Counsel Mark Belnick inked on Feb. 28 is raising the suspicions of compensation experts.

That's because it included a provision that Belnick would be paid a hefty termination payment—up to \$10.6 million—even if he were to be convicted of a felony. "I've never seen that before," says Judith Fischer, managing director of Executive Compensation Advisory Services, who has reviewed thousands of such agreements. She suspects there "might have been something looming" that would have led Belnick to want the unusual clause. By

Feb. 28, Tyco's stock had begun a free fall that has cut the company's market value by nearly \$100 billion this year.

All this only deepens the corporate governance crisis surrounding Tyco. "You wonder how the board could ever agree to such a thing," marvels Richard Koppes, former general counsel for CalPERS.

Belnick's attorney, Stanley Arkin, dismisses the criticism, arguing the clause "was not unusual" and merely entitled Belnick to benefits he had already earned at Tyco. He insists Belnick did no wrong. Belnick was fired on June 10. Tyco says he refused to cooperate with its investigation into possible misuse of corporate funds. Arkin says the real reason is that "he was pushed out [in] a legal turf war." *William C. Symonds*

THE LIST APRES OPRAH

Now that Oprah Winfrey has abandoned her monthly book selections, a slew of other media outlets is starting book clubs. Will they propel book sales like Oprah did? Publishers sure hope so.



BOOK CLUB	FIRST SELECTION
ABC'S GOOD MORNING AMERICA	<i>The Dive From Clausen's Pier</i> by Ann Packer
ABC'S LIVE WITH REGIS & KELLY	<i>If Looks Could Kill</i> by Kate White
NBC'S TODAY SHOW	Announcement scheduled for late June
USA TODAY	<i>Empire Falls</i> by Richard Russo
THE WASHINGTON POST	<i>Total Recall</i> by Sara Paretsky

TALK SHOW "By today's standards, Gordon Gekko seems like a Boy Scout."

—Senator Byron Dorgan (D-N.D.), referring to the character in the 1987 film *Wall Street* and the sky-high compensation of C

AFTERLIVES

LOVE ME LEGAL TENDER

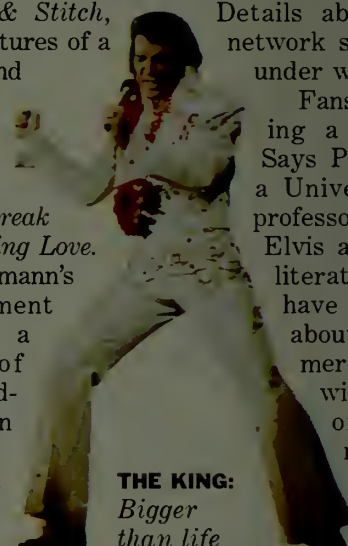
PREPARE YE FOR ELVISMANIA—again. A new marketing tidal wave tied to the 25th anniversary of Elvis Presley's death, on Aug. 16, is already starting. For weeks, World Cup fans have seen a Nike ad featuring Elvis' *A Little Less Conversation*, soon to be a CD single. On June 21, Walt Disney will release an animated flick, *Lilo & Stitch*, about the adventures of a Hawaiian girl (and her dog) who is nuts about Elvis, with six Elvis songs, including *Heartbreak Hotel* and *Burning Love*. In July, Bertelsmann's BMG Entertainment will release a boxed set of concert recordings, followed in September by *ELVIS 30 #1 Hits*.

That's not all. There's a

new Elvis Visa card from MBNA America Bank, a line of kitschy Elvis merchandise by a Virginia manufacturer (including a shaped mirror). A course, there are book TV shows. Random will publish three Elvis titles this summer, including *The Girls' Guide to*

Details about a fall network special are under wraps.

Fans confessing a bit skeptical. Says Peter Nazare, a University of professor who teaches Elvis as an anthropological literature course, "I have mixed feelings about all this commercialization without it, of us never discovering music."



THE KING: Bigger than life

BUSINESS SPEAK

PRIVACY: THE LONG AND THE SHORT OF IT

REMEMBER THOSE LONG, annoying privacy notices in your mailbox last year? Sent out by the millions by banks, brokers, insurers, and other financial-services providers, they were all but incomprehensible.

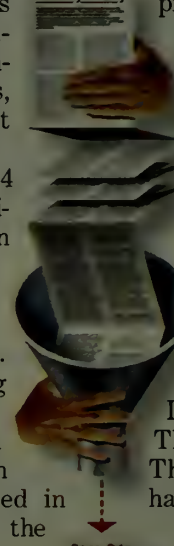
Now, a group of 14 companies, including Citigroup, J.P. Morgan Chase, Fidelity Investments, IBM, and Procter & Gamble, wants to simplify them. The coalition is backing a proposal to supplement the notices with a one-page summary in plain English. Inspired in part by food warnings, the

form uses a template people know what information companies collect and how it can be used. "I make it a lot easier for consumers to compare institutions," says

Williams, Fidelity's privacy officer.

The coalition of companies is trying to win support for proposed "lay notice"—created the help of groups at famous product labs—from key government and industry players such as the Federal Trade Commission and Direct Marketing Association. That shouldn't be a problem. The old forms could have been much worse. *Mike F*

Privacy Policy



Privacy Policy

Software quality ↑ 80%

Developer productivity ↑ 300%

ROI ↑ 1400%

Testing time ↓ 50%

Development cycle ↓ 40%

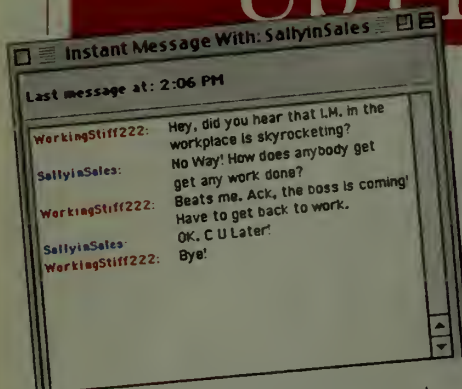
Number of defects ↓ 100%



Like damn lies and statistics, you say? Some of our customers used to be cynical, too. Before they were customers. But then they started sending us these numbers. Telling us that the results of using our best practices, integrated tools and services exceeded their expectations. Cutting test time, decreasing development cycles and reducing bugs. Freeing their teams from the obstacles that hinder software development. Need more evidence? There's plenty available at www.rational.com/customersuccess4.

be liberated

Up Front



DIGITAL DISTRACTIONS

THE OFFICE GOSSIPS' NEW WATER COOLER

INSTANT MESSAGING ISN'T JUST for the under-20 set. It's now booming among an older group: office employees. The number of folks instant messaging at work grew 26% from October to April, to 16.9 million, according to Jupiter Media Metrix. They're spending more time doing it, too: 7.2 billion minutes in April, up 74% from November.

Problem is, the finger-snap-fast communication among

employees often doesn't propel productivity. True, some auto makers negotiate with suppliers using chat windows. And about 80% of real-time customer service by Lands' End, for instance, occurs via online chat. But employers fear that most cyber-yakking has nothing to do with

work. Technicians at port management firm Virginia International Terminals in Norfolk, for example, had to install snooping software to block certain employees from gossiping up to two hours a day. Technical Div. manager Lung Cheng says 99% of employee IM use was personal and was "beginning to impact productivity."

Security is another concern. Instant messages are easily broken into, letting hackers delve into corporate systems. Doug Fowler, chief executive of cyber monitor SpectorSoft, calls IM "a security disaster waiting to happen." *Roger O. Crockett*

BIG IN JAPAN

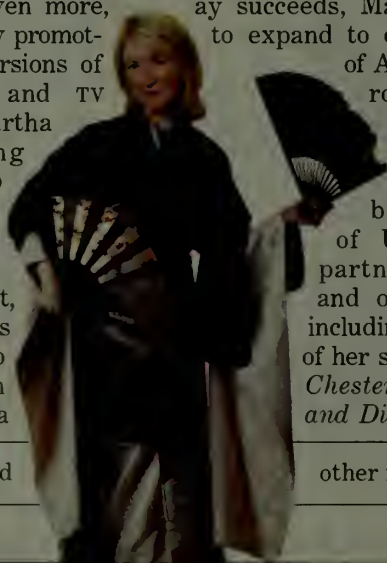
LAND OF THE RISING GLUE GUN

PICTURE THIS: THE AMERICAN Goddess of Gracious Living in the land of tatami mats and sushi. Martha Stewart, six months after opening her first boutique in a Tokyo department store, is rapidly expanding in Japan. Pairing with local retailer Seiyu, she has opened more than 200 outlets. Plans call for even more, as well as heavily promoting Japanese versions of her magazine and TV show. Says Martha Stewart Living Omnimedia CEO Sharon Patrick: "Business [in Japan] is brisk."

So brisk, in fact, that Seiyu says it's on track to sell \$120 million worth of Martha

products this year to women who want to bring a piece of New England home to their crowded apartments. Items cater to Japanese tastes. American towels in reds and browns, for example, were deemed too "muddy." Instead there are chopsticks in pastels, square frying pans for traditional cube-shaped omelets, and cute bedroom slippers—a must in every Japanese home.

If this initial overseas foray succeeds, Martha plans to expand to other parts of Asia and Europe. That's all the more important with the bankruptcy of U.S. retail partner Kmart and other woes, including scrutiny of her stock trades. *Chester Dawson and Diane Brady*



Polls, surveys, and

DRAWN & QUARTERED



UNPAID DEBTS

DON'T TOSS THOSE OLD CHINA BONDS

FROM 1913 TO 1949, CHINA issued millions of dollars' worth of bonds. When the Communists came to power, they claimed the debt was the obligation of a capitalist government that no longer existed. They never paid.

But with China's economy now booming, a group of 345 families holding old Chinese debt are trying to get their money back. They've persuaded 40 members of Congress to sign a letter to President Bush asking him to take up their cause with Beijing. An additional 15 are considering signing, according to the group, the American Bondholders Foun-

dation. (A Chinese Embassy spokesman declined to comment.) The bonds have a value of \$731,000, say bondholders' attorney, Green. ABF claims that, 50 to 85 years of interest, they're worth \$89 billion. Fat chance, you

Political pressure has worked before. China paid \$1 billion in bondholders' claims after Britain refused to allow China to issue debt in London. That was a 62% of face

value—so the Americans count on getting much.

Getting anything, says Geert Rouwenhorst, an expert on Chinese debt at the School of Management, depends on the willingness of the politicians to make a deal of this." *Kimberly W*



THE BIG PICTURE

HOW MUCH IS ENOUGH ?

Here's how many millions of dollars business professionals think they need to have in order to have "enough."

LESS THAN \$5 MILLION

32%

\$5 MILLION

20%

\$10 MILLION

20%

\$15 TO \$50 MILLION

18%

\$100 MILLION

10%

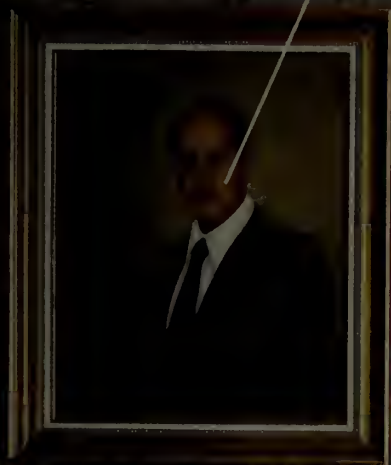
ONLINE SURVEY OF 1,426 PROFESSIONALS AND BUSINESS SCHOOL STUDENTS MARCH 2001

Data: MBA Jungle

other items for this section should be sent to upfront@businessweek.com

Talk about easy. Our company now
has wireless access to our inventory.
Real-time information. From anywhere.

In our day, if you wanted to know
what was in the warehouse, you
had to walk there yourself.



WILSON



HARTMAN



HUNTER

WILSON MANUFACTURING, INC.

Through the snow.

Wireless Business Solutions. Now you'll never have to say "Imagine what I could have
if..." because you'll be busy doing it. And it's not just having the Internet on your phone;
real-time access to customer data, pricing, inventory. Whatever drives your business.
Anytime. Anywhere. On a variety of devices. And it's all possible because only Nextel has a
national wireless network designed specifically to carry both voice and data. Call toll free
1-800-NEXTELC, or visit nextel.com/WBS to see how we can help you outmaneuver your competition.

WIRELESS
BUSINESS SOLUTIONS

NEXTEL



EDITOR-IN-CHIEF: Stephen B. Shepard
MANAGING EDITOR: Mark Morrison
ASSISTANT MANAGING EDITORS:
 Joyce Barnathan, Frank J. Comes, Robert J. Dowling, G. David Wallace
ART DIRECTOR: Malcolm Frouman
CHIEF OF CORRESPONDENTS: James E. Ellis
ONLINE EDITOR: Bob Arnold
EDITORIAL PAGE EDITOR: Bruce Nussbaum
CHIEF ECONOMIST: Michael J. Mandel
SENIOR EDITORS: James C. Cooper (Bus. Outlook), Neil Gross, Mary Kuntz, Jeffrey M. Laderman, Christopher Power, Kathy Rebello, Jane A. Sasseen, Ciro Scotti, John Templeman, Lee Walczak (Washington), Elizabeth Weiner
SENIOR WRITERS: Catherine Arnst, Robert Barker, Aaron Bernstein, Anthony Bianco, John A. Byrne, Peter Elstrom, Gene G. Marcial, Otis Port, Paul Raeburn, Gary Weiss
ECONOMICS: Peter Coy (Economics ed.), Kathleen Madigan (Bus. Outlook ed.), James Mehring, Margaret Popper, William Wolman, Seymour Zucker (Sr. contributing eds.), Christopher Farrell, Gene Koretz (Contributing eds.)
INTERNATIONAL: Patricia Kranz (European Edition ed.); Michael S. Serrill (Sr. ed.); Robin Ajello, Pete Engardio, (Sr. news eds.); Rose Brady (Sr. writer); Cristina Lindblad (Europe), John Koppisch (Int'l. finance)
ASSOCIATE EDITORS: Dan Beucke, Diane Brady, Nanette Byrnes, Amy Dunkin, Mike France, Toddi Gutner, Steve Hamm, David Henry, Gery Khermouch, Julia Lichtblau, Robert McNatt, Ira Sager, Eric Schine, Marcia Vickers
PICTURE EDITOR: Larry Lippmann
MANAGING ART DIRECTOR: Jay Petrow
SENIOR ART DIRECTOR: Steven Taylor
INTERNATIONAL ART DIRECTOR: Christine Silver
DEPARTMENT EDITORS: Books: Hardy Green. Computers: David Rocks. E-Business: Timothy J. Mullane. Finance & Banking: Emily Thornton, Heather Timmons. Industries: Adam Aston. Internet: Spencer E. Ante, Heather Green. Management: Louis Lavelle. Markets & Investments: Mara Der Hovanesian. Media: Tom Lowy. News: John Protos. People: Susan Berfield. Personal Finance: Lewis Brahm, Carol Marie Cropper, Susan Scherrek, Anne Tergesen. Scoreboards: Frederick F. Jespersen. Telecommunications: Steve Rosenbush. Up Front: Sheridan Prasso (Sr. news ed.). Working Life: Michelle Conlin
CONTRIBUTING EDITOR: Mark Hyman (Sports business)
STAFF EDITORS: Jeanette Brown, Jennifer Merritt, Kimberly Weisul
COPY EDITORS: Prudence Crowther, Harry Maurer, Marc Miller (Deputy chiefs); Jim Taibi (Asst. chief); Tim Belknap, Aleta Davies, Doug Royalty (Sr.); Giles Blunt, Joy Katz, Barry Maggs, Anne Newman, David Pengilly, Malka Percal, Monica Roman, Lourdes Valeriano. Researchers: Maria Chapin, Gail Fowler, Aida Rosario
PRODUCTION COPY EDITORS: Larry Dark (Chief); Céline Keating, Robert J. Rosenberg (Deputy chiefs); Alethea Black, Sarah B. Davis, Robert S. Norman, David Purcell, Victoria Rubin
ART: Don Besom, Alice Cheung, Gary Falkenstein (Assoc. dirs.); Nigel Cruickshank, Jamie Elsis, Edith Gutierrez, Ron Plyman (Asst.). Graphics: Joan Danaher (Director); Rob Doyle (Deputy dir.); Laurel Daunis Allen, Joe Calviello, Roger Kenny, Stephen Kenny, Alberto Mena, Ray Vella; Eric Hoffmann. Imaging: James Leone (Mgr.), Alan Bomzer (Asst.), Nita Le, Rich Michiel, Leo Nietter, Joseph Rhames
PHOTO EDITORS: Scott Mlyn, Ronnie Weir (Deputies); Anne D'Aprix, Kathleen Moore, Andrew Popper, (Assoc.); Lucy Conticello, Sarah Greenberg Morse (Asst.); M. Margarita Eiroa (Traffic mgr.); Burt Hughes, Mindy Katzman, Lori Perbeck (Researchers)
EDITORIAL OPERATIONS: Susan Fingerhut (Director); Ken Machlin-Lockwood (Mgr.). Karen Butcher, Francisco Cardozo, Thomas R. Dowd, Stephen R. Lebron, Kim Maenak, Jose L. Martin, Peter K. Niceberg, Jane M. Perkinson, Karen Turck, Ilse V. Walton (Edit mgr.), Mark Lang
EDITORIAL TECHNOLOGY: Thomas L. Morgan (Director), Y. Steve Ben-Ari, Steven McCarthy, Anoop Srivastava, Craig Sturgis, Mauro Vaisman
ONLINE: Michael Mercurio (Managing ed.), Arthur Eves (Creative dir.), A. Peter Ciern, John A. Dierdorff, John Johnsrud; Will Andrews, Heather Barry, Jaime Beauchamp, Jane Black, Joleen Colpa, Tony Cracolice, Roger Franklin, Brian Hinde, Brian Kelly, Olga Kharif, B. Kite, Matt Kopit, Jessica Loudon, Karyn McCormack, Justin McLean, Tzyh Ng, Patricia O'Connell, Suzanne Robitaille, Alex Salkever, David Shook, Ames Stone, Joshua Tanzer, Amy Tsao, Kathy Vuksanik, Eric Wahlgren, Heesun Wee
CORRESPONDENTS: Atlanta: Dean Foust (Mgr.), Charles Haddad, Aixa Pascual. Boston: William C. Symonds (Mgr.), Faith Keenan, Geoffrey Smith. Chicago: Joseph Weber (Mgr.), Roger O. Crockett (Deputy mgr.), Michael Arndt (Sr. correspondent), Robert Berner, Julie Forster, Pallavi Gogoi, Darnell Little. Dallas: Wendy Zellner (Mgr.), Stephanie Anderson Forest, Andrew Park. Detroit: Kathleen Kerwin (Mgr.), Joann Muller, David Welch. Los Angeles: Ronald Grover (Mgr.); Larry Armstrong, Christopher Palmeri (Sr. correspondents); Arlene Weintraub. Philadelphia: Amy Barrett (Mgr.). Seattle: Jay Greene (Mgr.), Stanley Holmes. Silicon Valley: Robert D. Hof (Mgr.), Linda Himelstein (Sr. correspondent), Peter Burrows, Cliff Edwards, Ben Elgin, Joan O'C. Hamilton, Jim Kerstetter, Louise Lee. Washington: Paula Dwyer (Deputy mgr.), John Carey (News ed.); Rich Miller (Sr. writer); Richard S. Dunham, Howard Gleckman, Mike McNamee (Sr. correspondents); Amy Borrus, Dan Carney, Laura Cohn, Stan Crock, Paul Magnusson, Alexandra Starr, Stephen H. Wildstrom (Tech. & You), Lorraine Woellert, Catherine Yang; Douglas Harbrecht (Online: Sr. news ed.), Beth Belton (Online: News ed.). Beijing: Dexter Roberts (Mgr.). Bombay: Manjeet Kripalani (Mgr.). Frankfurt: Jack Ewing (Mgr.). David Fairlamb, Christine Tierney. Hong Kong: Mark L. Clifford (Mgr.), Frederik Balfour, Bruce Einhorn. London: Stanley Reed (Mgr.), Kerry Capell. Mexico City: Geri Smith (Mgr.). Moscow: Paul Starobin (Mgr.). Paris: John Rossant (Mgr.), Stephen Baker, Carol Matlack, Andy Reinhardt. Rome: Gail Edmondson (Mgr.). Seoul: Moon Ihwan. Singapore: Michael Shari (Mgr.). Tokyo: Brian Bremner (Mgr.), Robert Neff (Contrib. ed.), Chester Dawson, Irene M. Kunii
EDITORIAL SERVICES: Broadcasting: Ray Hoffman. Business Manager: Barbara Boynton. Communications: Robert Pondiscio (Director), Heather Carpenter, Christine Fountaine, Andrew Palladino, Nancy Sheed. Information Services: Jamie B. Russell (Director), Susan Rutledge (Research mgr.), John Cady (Technology mgr.), Fred Katzenberg, David Polek, Susan Zegel. Office Manager: Roselyn Kopit. Readers Report: Yvette Hernandez. Reprint Permission: Nancy Johnson. Special Asst. to Editor-in-Chief: Christine Summerson

THE TRANSFORMATION OF CHARLES SCHWAB

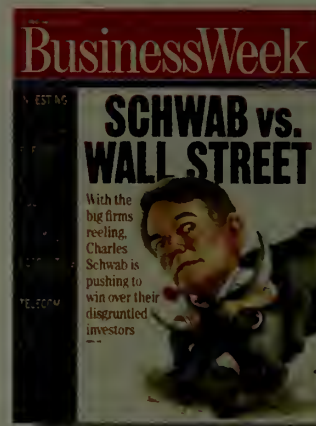
"Schwab vs. Wall Street" nails the radical outward changes that have taken Charles Schwab Corp. far from its roots as a discount broker (Cover Story, June 3). But the quaking on Wall Street is mirrored by the turmoil inside the company as Schwab systematically abandons three of the four principles on which it was based.

Principle No.1: No advice. Chuck Schwab used to fire brokers who recommended stocks. A generation of Schwab traders grew up believing that advice was a dirty word. Schwab Equity Ratings, its new stock-picking service, takes the air out of that principle.

Principle No.2: No selling. Its brokers still don't make cold telephone calls, but Schwab is gearing up for an aggressive e-mail alert program that is "warm calling" in disguise.

Principle No.3: Serve the average investor. Schwab's transformation into a broker for the wealthy is almost complete. It is nickel-and-diming its sub-\$50,000 accounts, hoping they will go away. While other brokerages are lowering fees, Schwab is raising them.

Only the fourth principle (salaried brokers) continues to be respected. Yet Schwab's embrace of tying employee bonuses to the assets each broker aggregates can also expose the company to unintended conflicts [of interest].



John Kador
 Geneva, Ill.

Editor's note: The writer is the author of a forthcoming book about Charles Schwab Corp.

Schwab is playing a risky game: an independent investment adviser. I have "parked" a lot of my client's money with Schwab. However, my client reports that Schwab has inserted environmental staffers with their statements to their advisory services. Does Schwab think I am going to direct any new accounts to them?

Harry K...
 San Francisco

I was a customer of Charles Schwab for nearly 19 years ("Schwab vs. Wall Street" Cover Story, June 3). In my opinion, Schwab's customer service has been declining. I reached the breaking point last June, when the blue I was hit with a \$19,000 margin call was purely the result of an unannounced decision by Schwab to switch from fully marginable to completely nonmarginable. In the past two to three years, Schwab has quietly moved a large number of stocks to the nonmarginable category.

I was interested to see that Schwab is limiting its new stock-evaluation program to approximately the 3,000 largest stocks. If they had gone just a bit further down the capitalization scale, Schwab's system might have identified stocks with very good price-appreciation potential that customers would have been prohibited from buying on margin.

William C. R...
 Ambler, Pa.

In your article on Charles Schwab and its need for quality advisers, you mention that three of four in their

PRESIDENT & PUBLISHER: William P. Kupper Jr.

Sr. VP, OPERATIONS: Gary B. Hopkins
Sr. VP, MARKETING & BUSINESS DEVELOPMENT: Keith L. Fox
VP, ASSOC. PUBLISHER, U.S. SALES DIRECTOR: Geoffrey A. Dodge
VP, WORLDWIDE CIRCULATION DIRECTOR: Thomas Masterson
VP, CONTROLLER: Kevin P. Pascale
VP, TECHNOLOGY/NEW MEDIA: Christopher C. Rousseau
VPS, SALES: Mark A. Flinn (Northeast region and BWT), Karen Christiansen (Southeast reg.), Grant A. Getz (Midwest reg.), Robert J. Maund (West reg.)

VP, INTERNATIONAL ADVERTISING DIRECTOR: Paul Maraviglia
VP, MANAGING DIRECTOR-ASIA: Alan Lammin
VP, ADVERTISING BUSINESS & PRODUCTION: Linda F. Carv
VP, STRATEGIC PLANNING: Kimberly Greer
VP, STRATEGIC PROGRAMS: Jim Richardson
VP, SALES DEVELOPMENT: Kimberly L. Styler
VP, MARKETING: Patricia Crocker France
VP, CONSUMER MARKETING: Joyce Swingle

The McGraw-Hill Companies

BusinessWeek
 JUNE 24, 2002 (ISSN 0007-7135) *** 3788
 Published weekly, except for one week in January and one in August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc.
 Founder: James H. McGraw (1860-1948).
 Executive, Editorial, Circulation, and Advertising Offices: The McGraw-Hill Companies Building, 1221 Avenue of the Americas, New York, N.Y. 10020. Telephone: 212-512-2000. Telex: Domestic 127039; Intl. 2360127039. U.S. subscription rate \$54.95 per year; 2 years, \$79.95; 3 years, \$99.95. Single copies/back issues, \$9.95. Call 1-800-228-9867 or email: busweek@mhmc.com. Subscriber Services: 1-800-335-1200. TDD: 1-800-554-1579.
Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO 80322-3235. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Registered for GST as The McGraw-Hill Companies, Inc. GST #R123075673.

Copyright 2002 by The McGraw-Hill Companies, Inc. All rights reserved. registered in U.S. Patent Office. European Circulation Center, McGraw-Hill, Maidenhead, Berks, England. Telephone: 01628-23431; Telex: 924646.

Officers of The McGraw-Hill Companies, Inc.: Harold W. McGraw III, President, and Chief Executive Officer; Kenneth M. Vittor, Executive President and General Counsel; Robert J. Bahash, Executive Vice President and Chief Financial Officer; Frank D. Pengelase, Senior Vice President, TV Operations.

PHOTOCOPY PERMISSION: Where necessary, permission is granted by the copyright owner for those registered with the Copyright Clearance Center (CCC), 222 Rosewood Drive, Danvers, MA 01923, to photocopy any material herein for the flat fee of \$1.00 per copy of each article. Send payment to CCC. Copying for other than personal or internal reference use without express permission of The McGraw-Hill Companies, Inc. is prohibited. Address requests for customized bulk reprints to BusinessWeek Reprints, 1221 Avenue of the Americas, New York, NY 10020 or call 212-512-3148. ISSN 0007-7135/02. PRINTED IN THE U.S.A.



Your board of directors has a few very simple requests: higher productivity, lower costs, and improved efficiency. It's time you met Brown. Brown can help you coordinate the flow of goods, data and funds throughout your procurement, manufacturing and delivery cycle. Brown's technology works with yours to give you better visibility into your supply chain. And you thought we just delivered packages. **WHAT CAN BROWN DO FOR YOU?™**

and the CEO



ups.com

Readers Report

ta Clara (Calif.) office lack the certified financial planner (CFP) qualification. I am a stockbroker and investment adviser with more than 19 years of experience. The licenses and examinations I have passed to sell securities, insurance, and other products are exams with either state or national requirements (e.g., Series 7, 63; life and variable annuities; real estate broker; California attorney).

The CFP designation is from an organization without any governmental authority or standards. You perpetuate the marketing ploy that the CFP indicates that someone is better or more qualified than a non-CFP. Many excellent financial planners do not feel like sending money to the CFP organization for even more hours of continuing education than are already required.

Robert Berend
Kensington, Calif.

TYSON'S TAKE IRKS THE AGRICULTURE DEPT.

I must take some issue with Laura D'Andrea Tyson's "The farm bill is a \$200 billion disaster" (Economic Viewpoint, June 3) regarding the Farm Se-

curity & Rural Investment Act of 2002. Tyson's comparisons on the cost of the new law fail to recognize actual spending on farm programs during the past four years. The level of support of the new law is very nearly the same as under the Clinton Administration. More important, farmers and their supporting industry can now plan long-term rather than not knowing each year what emergency appropriation might be coming from the Congress.

Tyson's comments on the effects of the farm bill and international trade negotiations also seem a bit overstated. Our resolve to obtain further trade liberalization in agriculture and food products has not changed one bit. We will continue to provide vigorous leadership throughout the Doha negotiations.

A key fact pertaining to World Trade Organization compliance continues to be ignored by critics: The U.S. domestic support ceiling is \$19.1 billion a year, vs. \$31 billion for Japan and \$62 billion for the European Union. Our spending under the new law is well within the allowable ceiling. Moreover, the law mandates the Agriculture Secretary to ensure that the \$19.1 billion limit is not exceeded. This is a critically important

aspect of ensuring that we meet international trade commitments.

J. B.
Undersecretary for
& Foreign Agricultural Services
Agriculture
Wash

AARP: SETTING THE RECORD STRAIGHT ON SOCIAL SECURITY

I'd like to correct one item in otherwise well-written article on ("Captain AARP's war on drug costs," *Special Issues*, May 27): AARP did not endorse the measure that ended up being a big tax bite out of Social Security payments. In fact, AARP vigorously worked to change the Social Security tax increase incorporated in the deficit-reduction bill. While the deficit-reduction bill eventually passed and signed into law, AARP's efforts to lighten the disproportionate impact of proposed increases on those 65 and older helped reduce the number of people affected and the size of the tax bite.

Unfortunately, at some point ago, AARP's position on the tax increase was misstated, especially in direct fund-raising hype from groups that

1 YOUR COMPANY, THE 5TH FLOOR

2 YOUR COMPANY, THE 5TH AND 6TH FLOORS?

3 LOG ON TO OPEN.AMERICANEXPRESS.COM

APPLY FOR A LOAN TO CUSTOMIZE SPACE. GET AN ANSWER WITHIN 48 HOURS.

FIND AN ARCHITECT WITH THE DON & BRADSTREET BUSINESS DIRECTORY.

PURCHASE EQUIPMENT FROM DELL™ WITH YOUR PRE-NEGOTIATED DISCOUNT.

ORDER POOL TABLE FOR NEW EMPLOYEE LOUNGE USING THE MEMBERSHIP REWARDS POINTS.



NEW TOOLS FOR A SMALL BUSINESS ECONOMY

der retirees. Thank you for giving
e opportunity to lay it to rest.

David Certner

AARP Director of Federal Affairs
Washington

TIMBER TARIFFS HELP CANADIAN FORESTS—A LITTLE

ile we certainly have seen little
hing we like in the Bush corporate
agenda, tagging the Administra-
n the U.S.-Canada softwood lum-
bate isn't quite accurate ("Bush:
price fast track?" News: Analysis
nmentary, June 3).

starters, the U.S. levied tariffs
st Canadian timber pursuant to a
standing and mandatory trade law
oped by Congress. These tariffs do
ositive things: They offset the mas-
ubsidies given by Canadian prov-
to timber companies operating in
la (some, such as Weyerhaeuser
og in multiple countries). And the
at least slow down the literal liq-
on of Canadian wild forests, most of
are accessible to loggers only be-
of the unfair Canadian subsidies.

e Bush Administration should be
much more to protect cross-
lary wildlife species and ecosys-
by negotiating an end to the So-
style monopolies enjoyed by timber

companies in provinces such as British
Columbia.

William Snape III

Chief Counsel

Defenders of Wildlife

Washington

IBM'S MAGIC IS IN MANUFACTURING, NOT SERVICES

Re "It's time to cash in some chips,
Big Blue" (News: Analysis & Commen-
tary, June 3): IBM rode out the storm of
the changing economy and changing
technology not only by shifting how it
does business but by keeping up its un-
derlying strength in basic science, tech-
nology, and manufacturing. Do you think
Big Blue would develop advanced semi-
conductor processes if it didn't manu-
facture semiconductors? Probably not.
Real wealth is generated by manufac-
turing, not by fancy paper-shuffling or
becoming a services company.

Joe Blaschka Jr.

Woodinville, Wash.

BusinessWeek online

The full text of *BusinessWeek*, the *BusinessWeek*
Daily Briefing, and access to *BusinessWeek* archives
starting in 1991 are available on the World Wide Web at:

www.businessweek.com

and on America Online at Keyword: BW.

How to reach BusinessWeek

LETTERS FOR READERS REPORT

All letters must include an address and daytime and
evening phone numbers. We reserve the right to edit
letters for clarity and space and to use them in all
electronic and print editions.

Mail: *BusinessWeek*, 1221 Avenue of the Americas,
43rd floor, New York, NY 10020

Fax: (212) 512-6458

Email: bwreader@businessweek.com

SUBSCRIBER SERVICES

Web site for address changes, renewals, invoice
payments, and account status:

<http://businessweek.com/service.htm>

(click "Manage Your Account")

For individual subscriptions, corporate subscriptions,
and other inquiries.

Phone: (800) 635-1200 Fax: (641) 842-6101

Email: bwcustomerservice@neodata.com

Education Department

Phone: (800) 843-7352 Fax: (800) 876-9416

Website: www.resourcecenter.businessweek.com

Email: bw_group@businessweek.com

REPRINTS AND COPYRIGHT PERMISSIONS

Custom Reprints (minimum order 1,000)

Phone: (212) 512-3148 Fax: (212) 512-2337

Email: reprints@businessweek.com

Web Site: reprints.businessweek.com

Photocopies (\$1.80 per copy for commercial use;
\$1.50 per copy for classroom use)

Copyright Clearance Center (www.copyright.com)

Phone: (978) 750-8400 Fax: (978) 750-4470

Other Permissions

Phone: (212) 512-4801 Fax: (212) 512-4938

Email: permissions@businessweek.com

Web Site: www.businessweek.com/info/permis.htm

OPEN

SMALL BUSINESS NETWORK™

Investment in MasterCard Rewards™ requires. There is a 3% annual program fee. MasterCard Rewards
and Corporate Cards are not eligible for enrollment. Terms and fees for Corporate Cards vary. ©2000 American Express

EXECUTION

The Discipline of Getting Things Done

By Larry Bossidy and Ram Charan

Crown Business • 278pp • \$27.50

A HOW-TO BOOK FOR THE CAN-DO BOSS

With so many chief executives dodging investigations, taxes, or shareholders' wrath these days, the term "execution" conjures up ominous images. But it's just what Corporate America needs most right now, according to Larry Bossidy, chairman of Honeywell International Inc., and management guru Ram Charan. In *Execution: The Discipline of Getting Things Done*, they attempt to explain why visionaries often fail and what steps leaders must take to translate their strategies into results.

The authors often use a tag-team approach: Bossidy will reminisce about his management experiences, then Charan provides analysis and anecdotes of his own. The formula that emerges for success in leadership may sound familiar, but it's well worth repeating: The CEO must be obsessed with the business, nurturing the most capable people and creating a truly performance-based culture. Think big, say the authors, but don't kid yourself. Their volume is a thorough if somewhat unexciting guide to making ideas work.

If this description sounds like a setup for yet another ode to General Electric Co. and Jack Welch, that's because it is, at least in part. Bossidy logged 34 years at GE before leaving in 1991 to head AlliedSignal Inc., and Charan is one of the few consultants allowed into GE's inner circle. Welch is often cited as the quintessential execution artist—praised for everything from his "boundaryless corporation" to his informal let's-get-it-done style. The former GE chief returns the compliment with a glowing endorsement of the book plastered on its front cover. Other role models include Sam Walton of Wal-Mart Stores, Herb Kelleher of Southwest Airlines, and Dick Brown of EDS. The authors name only a few failed leaders. One is Richard C. Thoman of Xerox Corp., a somewhat

cerebral former McKinsey & Co. consultant and IBM exec who, the authors say, never broke through the copier company's "clubby culture" to get support for his bold initiatives. The result: poor morale, angry customers, and operational chaos. Richard McGinn of Lucent Technologies Inc. also gets a slap for setting "unrealistic goals" and being "completely out of touch."

Unfortunately, most of the other anecdotes involve anonymous actors—or are hypothetical, stuffed with characters named Joe or outfits named XYZ Co. Given that there's no dearth of well-known failures to dissect, this adds a slightly evasive tone to the proceedings. Throw in cryptic charts and some corporate jargon, and this otherwise useful guide at times becomes tedious and opaque.

Even Bossidy's own stories are oddly lacking in color or introspection. If he has made any mistakes or suffered through any disappointments in his career, we don't hear about them. After his 1999 retirement, Honeywell and GE attempted a merger but were unsuccessful. This, plus Honeywell's subsequent floundering, would seem to signal a colossal failure of execution on somebody's part—but the events are barely mentioned. Bossidy's only criticism of Honeywell is that a culture of execution, in place at the time of his retirement, fell apart, prompting his return two years later. Some of his initiatives were too mired in problems to be salvaged. Yet, he suggests, by September 11, the execution culture was sufficiently back in place for the company to respond quickly to the new environment. With the chairman set to retire again on June 30, some might wonder if Honeywell's

fortunes are too closely tied to on-

Bossidy and Charan would normally argue that the answer is not for leaders to have real success in execution, say the authors, they must have a culture of A-players who are empowered to carry out their own strategies and who get directly rewarded for accomplishment. Both men scoff at the notion of compensating people within a narrow range. Writes Bossidy: "Motivation is the mother's milk of business. It is a performance culture." As someone whose salaried jobs have made him a millionaire many times over, he would know. To these writers, a top-down process for developing and assessing

people is more important than devising a strategy. Streamlining operations gives companies the discipline, flexibility, and strength to thrive in any environment. A company can easily replace anyone who leaves on the same day GE did when Larry Johnson left its appliance division to head the Albertson's Inc. supermarket chain last year.

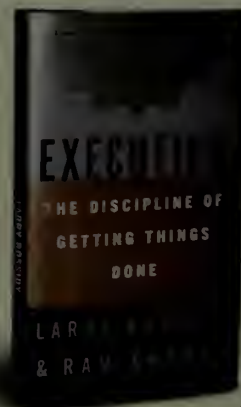
Still, the book makes clear that many a failed company is staffed with bright, well-paid people who are misdirected, demoralized, working at cross purposes. They need robust, realistic strategies and "action plans if they are to succeed. *Execution* offers thoughtful questions to consider when building a strategic blueprint.

The volume's final section addresses how to develop a process for operations—linking where the business wants to go with who's going to get it there. A chapter on this topic considers, among other things, "How to Build a Budget in Three Days" and "The Art of Managing Trade-offs."

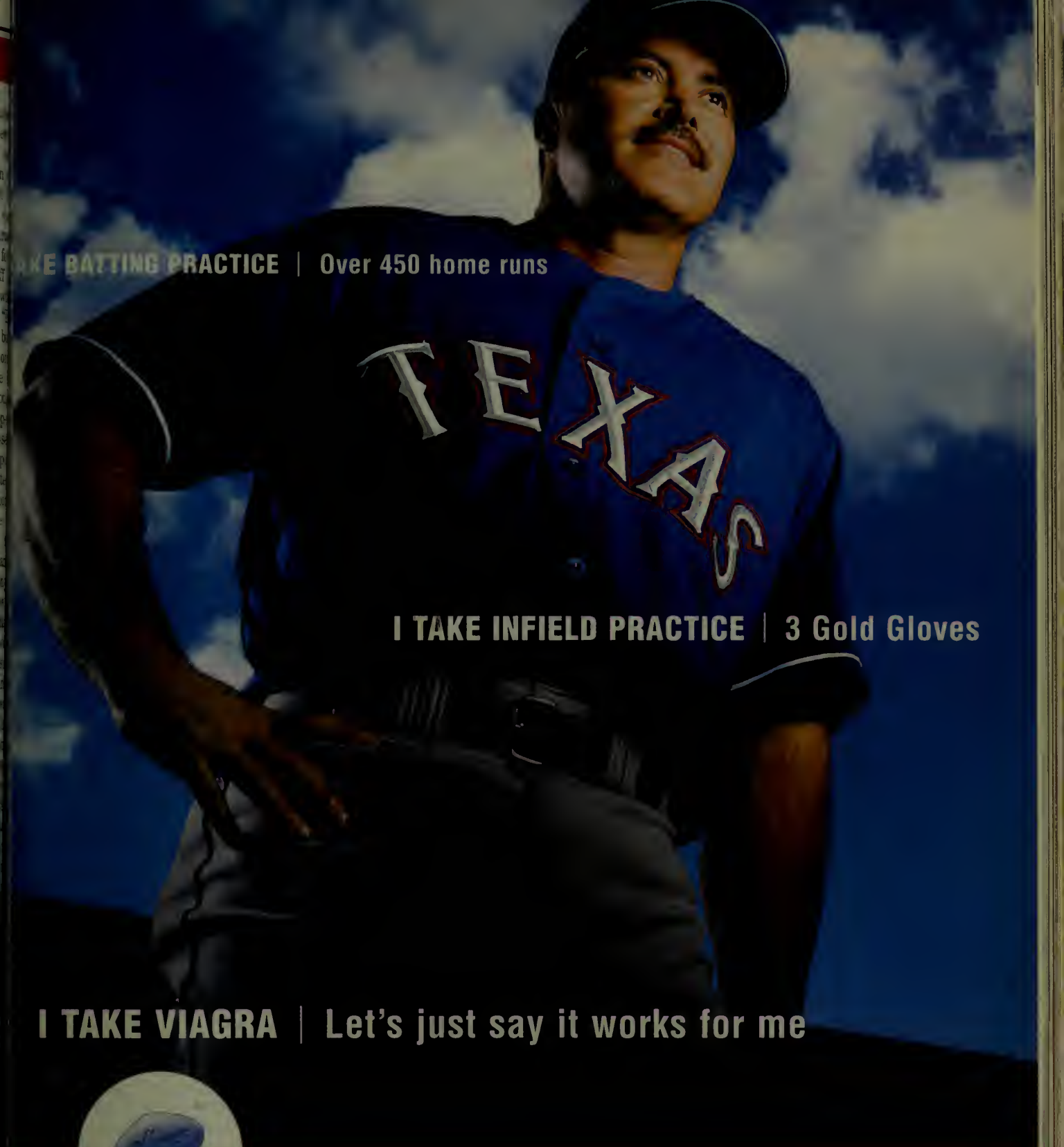
Clearly, *Execution* isn't a beach read. The authors care more about offering practical advice than crafting a lively read. Still, if even half the corporate leaders in America pondered their suggestions, the economy might be in much better shape. Moreover, Bossidy and Charan boast an impressive enough track record that anyone who wants to stay sharp and the helm will welcome their assistance.

BY DIANE BRADY

Brady covers corporate strategy from New York



THE AUTHORS TAKE A CLOSE LOOK AT WHY SOME LEADERS SUCCEED—AND MANY VISIONARIES FAIL



I TAKE BATTING PRACTICE | Over 450 home runs

I TAKE INFIELD PRACTICE | 3 Gold Gloves

I TAKE VIAGRA | Let's just say it works for me

Rafael Palmeiro, VIAGRA has some impressive stats. In 4 years, more than 11 million prescriptions have been written in the United States alone. Plus, VIAGRA has helped more than 13 million men worldwide rediscover their love lives. Hey, it all adds up to do what Rafael did. Ask your doctor if a free sample of VIAGRA is right for you.

VIAGRA[®]
(sildenafil citrate) tablets



For more information, visit www.viagra.com

Please see patient summary of information for VIAGRA (25-mg, 50-mg, 100-mg) tablets on the following page.

VIAGRA is indicated for the treatment of erectile dysfunction. Remember that no medicine is for everyone. If you use nitrate drugs, often used to control chest pain (also known as angina), don't take VIAGRA. This combination could cause your blood pressure to drop to an unsafe or life-threatening level. Discuss your general health status with your doctor to ensure that you are healthy enough to engage in sexual activity. If you experience chest pain, nausea, or any other discomforts during sex or an erection lasts longer than 4 hours, seek immediate medical help. The most common side effects of VIAGRA are headache, facial flushing, and upset stomach. Less commonly, blurred vision, or sensitivity to light may briefly occur.



PATIENT SUMMARY OF INFORMATION ABOUT

VIAGRA®
 (sildenafil citrate) tablets

This summary contains important information about **VIAGRA®**. It is not meant to take the place of your doctor's instructions. Read this information carefully before you start taking VIAGRA. Ask your doctor or pharmacist if you do not understand any of this information or if you want to know more about VIAGRA.

This medicine can help many men when it is used as prescribed by their doctors. However, VIAGRA is not for everyone. It is intended for use only by men who have a condition called erectile dysfunction.

VIAGRA must never be used by men who are taking medicines that contain nitrates of any kind, at any time. This includes nitroglycerin. If you take VIAGRA with any nitrate medicine your blood pressure could suddenly drop to an unsafe or life threatening level.

What Is VIAGRA?

VIAGRA is a pill used to treat erectile dysfunction (impotence) in men. It can help many men who have erectile dysfunction get and keep an erection when they become sexually excited (stimulated).

You will not get an erection just by taking this medicine. VIAGRA helps a man with erectile dysfunction get an erection only when he is sexually excited.

How Sex Affects the Body

When a man is sexually excited, the penis rapidly fills with more blood than usual. The penis then expands and hardens. This is called an erection. After the man is done having sex, this extra blood flows out of the penis back into the body. The erection goes away. If an erection lasts for a long time (more than 6 hours), it can permanently damage your penis. You should call a doctor immediately if you ever have a prolonged erection that lasts more than 4 hours.

Some conditions and medicines interfere with this natural erection process. The penis cannot fill with enough blood. The man cannot have an erection. This is called erectile dysfunction if it becomes a frequent problem.

During sex, your heart works harder. Therefore sexual activity may not be advisable for people who have heart problems. Before you start any treatment for erectile dysfunction, ask your doctor if your heart is healthy enough to handle the extra strain of having sex. If you have chest pains, dizziness or nausea during sex, stop having sex and immediately tell your doctor you have had this problem.

How VIAGRA Works

VIAGRA enables many men with erectile dysfunction to respond to sexual stimulation. When a man is sexually excited, VIAGRA helps the penis fill with enough blood to cause an erection. After sex is over, the erection goes away.

VIAGRA Is Not for Everyone

As noted above (*How Sex Affects the Body*), ask your doctor if your heart is healthy enough for sexual activity.

If you take any medicines that contain nitrates—either regularly or as needed—you should never take VIAGRA. If you take VIAGRA with any nitrate medicine or recreational drug containing nitrates, your blood pressure could suddenly drop to an unsafe level. You could get dizzy, faint, or even have a heart attack or stroke. Nitrates are found in many prescription medicines that are used to treat angina (chest pain due to heart disease) such as:

- nitroglycerin (sprays, ointments, skin patches or pastes, and tablets that are swallowed or dissolved in the mouth)
- isosorbide mononitrate and isosorbide dinitrate (tablets that are swallowed, chewed, or dissolved in the mouth)

Nitrates are also found in recreational drugs such as amyl nitrate or nitrite ("poppers"). If you are not sure if any of your medicines contain nitrates, or if you do not understand what nitrates are, ask your doctor or pharmacist.

VIAGRA is only for patients with erectile dysfunction. VIAGRA is not for newborns, children, or women. Do not let anyone else take your VIAGRA. VIAGRA must be used only under a doctor's supervision.

What VIAGRA Does Not Do

- VIAGRA does not cure erectile dysfunction. It is a treatment for erectile dysfunction.
- VIAGRA does not protect you or your partner from getting sexually transmitted diseases, including HIV—the virus that causes AIDS.
- VIAGRA is not a hormone or an aphrodisiac.

What To Tell Your Doctor Before You Begin VIAGRA

Only your doctor can decide if VIAGRA is right for you. VIAGRA can cause mild, temporary lowering of your blood pressure. You will need to have a thorough medical exam to diagnose your erectile dysfunction and to find out if you can safely take VIAGRA alone or with your other medicines. Your doctor should determine if your heart is healthy enough to handle the extra strain of having sex.

Be sure to tell your doctor if you:

- have ever had any heart problems (e.g., angina, chest pain, heart failure, irregular heart beats, or heart attack)

- have ever had a stroke
- have low or high blood pressure
- have a rare inherited eye disease called retinitis pigmentosa
- have ever had any kidney problems
- have ever had any liver problems
- have ever had any blood problems, including sickle cell anemia or leukemia
- are allergic to sildenafil or any of the other ingredients of VIAGRA tablets
- have a deformed penis, Peyronie's disease, or ever had an erection that lasted more than 4 hours
- have stomach ulcers or any types of bleeding problems
- are taking any other medicines

VIAGRA and Other Medicines

Some medicines can change the way VIAGRA works. Tell your doctor about **any medicines** you are taking. Do not start or stop taking any medicines before checking with your doctor or pharmacist. This includes prescription and nonprescription medicines or remedies. Remember, VIAGRA should never be used with medicines that contain nitrates (see *VIAGRA Is Not for Everyone*). If you are taking a protease inhibitor, your dose may be adjusted (please see *Finding the Right Dose for You*). VIAGRA should not be used with any other medical treatments that cause erections. These treatments include pills, medicines that are injected or inserted into the penis, implants or vacuum pumps.

Finding the Right Dose for You

VIAGRA comes in different doses (25 mg, 50 mg and 100 mg). If you do not get the results you expect, talk with your doctor. You and your doctor can determine the dose that works best for you.

- Do not take more VIAGRA than your doctor prescribes.
- If you think you need a larger dose of VIAGRA, check with your doctor.
- VIAGRA should not be taken more than once a day.

If you are older than age 65, or have serious liver or kidney problems, your doctor may start you at the lowest dose (25 mg) of VIAGRA. If you are taking protease inhibitors, such as for the treatment of HIV, your doctor may recommend a 25 mg dose and may limit you to a maximum single dose of 25 mg of VIAGRA in a 48 hour period.

How To Take VIAGRA

Take VIAGRA about one hour before you plan to have sex. Beginning in about 30 minutes and for up to 4 hours, VIAGRA can help you get an erection if you are sexually excited. If you take VIAGRA after a high-fat meal (such as a cheeseburger and french fries), the medicine may take a little longer to start working. VIAGRA can help you get an erection when you are sexually excited. You will not get an erection just by taking the pill.

Possible Side Effects

Like all medicines, VIAGRA can cause some side effects. These effects are usually mild to moderate and usually don't last longer than a few hours. Some of these side effects are more likely to occur with higher doses. The most common side effects of VIAGRA are headache, flushing of the face, and upset stomach. Less common side effects that may occur are temporary changes in color vision (such as trouble telling the difference between blue and green objects or having a blue color tinge to them), eyes being more sensitive to light, or blurred vision.

In rare instances, men have reported an erection that lasts many hours. You should call a doctor immediately if you ever have an erection that lasts more than 4 hours. If not treated right away, permanent damage to your penis could occur (see *How Sex Affects the Body*).

Heart attack, stroke, irregular heart beats, and death have been reported rarely in men taking VIAGRA. Most, but not all, of these men had heart problems before taking this medicine. It is not possible to determine whether these events were directly related to VIAGRA.

VIAGRA may cause other side effects besides those listed on this sheet. If you want more information or develop any side effects or symptoms you are concerned about, call your doctor.

Accidental Overdose

In case of accidental overdose, call your doctor right away.

Storing VIAGRA

Keep VIAGRA out of the reach of children. Keep VIAGRA in its original container. Store at room temperature, 59°-86°F (15°-30°C).

For More Information on VIAGRA

VIAGRA is a prescription medicine used to treat erectile dysfunction. Only your doctor can decide if it is right for you. This sheet is only a summary. If you have any questions or want more information about VIAGRA, talk with your doctor or pharmacist, visit www.viagra.com, or call 1-888-4VIAGRA.

Rev 4, June 1999

Major League Baseball trademarks and copyrights are used with permission of Major League Baseball Properties, Inc. Visit the official website at MLB.com.

The blue diamond tablet shape is a trademark of Pfizer Inc.

VIAGRA®
 (sildenafil citrate) tablets

STEPHEN H. WILDSTROM

you@businessweek.com

WI-FI: REVOLUTION TURNS INTO CONFUSION



The industry
has come up
with two ways
speeding up
wireless. They
must be made
compatible

Wi-Fi wireless networking, both at home and in offices, has gotten off to a much faster start than most high-tech innovations. A big reason is that the technology, also known as 802.11b wireless Ethernet, has been spared the standards wars that have plagued the industry. It even has a trade group, the Wireless Ethernet Compatibility Alliance (WECA), dedicated to ensuring that all equipment bearing the Wi-Fi logo will be able to work together.

This happy situation was too good to last. Successful as it is, Wi-Fi has some serious disadvantages. With a theoretical top speed of 11 megabits per second and a practical maximum of about half that, it is too slow to carry high-quality video. And it shares the 2.4 gigahertz band with cordless phones, microwave ovens, and Bluetooth short-range wireless. As Wi-Fi networks proliferate, especially in apartments and multi-tenant office buildings, interference problems will become serious.

The industry has come up with two solutions. One, called 802.11a, operates in an empty, higher frequency band and offers a theoretical top speed of 54 megabits. A proposed standard called 802.11g offers the same faster speed but stays at the crowded frequency.

Right now, 802.11a looks like the winner, if only because hardware is shipping now from an assortment of companies, while the "g" standard is still a work in progress. I tried a Skyline access point (\$390) and PC Card (\$160) from Proxim (www.proxim.com). Despite a complex set-up procedure that reminded me of Wi-Fi systems when they were introduced three years ago, the Proxim gear worked well and, under ideal conditions, transmitted data at about six times the speed of Wi-Fi.

In theory, the 802.11a has a shorter range than Wi-Fi. But Netgear has done considerable testing of 802.11a, and CEO Patrick Lo says the company has found that while speed degrades as you move away from an access point, 802.11a was significantly faster than Wi-Fi at all distances. That's consistent with what I found in my informal testing.

The big question for businesses and consumers is how smooth the transition to faster wireless will be. So far, the signs are good. Atheros Communications is shipping samples of combination 802.11a/Wi-Fi radios. Existing networks will use either these combo radios or a mix of "a" and Wi-Fi access points so that users will be able to connect no matter which flavor of 802.11 their laptops or other devices use. Hardware for 802.11a currently carries a premium of about 50% over the older gear, and combos will be more expensive yet. These prices are expected to plunge dramatically as production builds, though dual-mode radios will always cost at least a bit more.

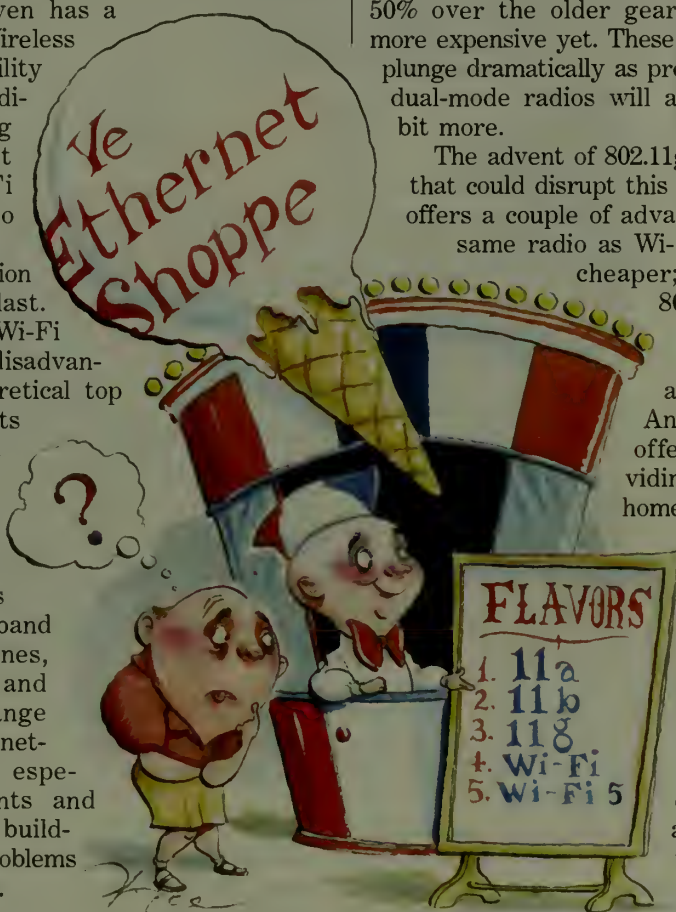
The advent of 802.11g will be the wild card that could disrupt this orderly transition. "G" offers a couple of advantages. It can use the same radio as Wi-Fi, so it is potentially cheaper; in fact, the draft

802.11g specification requires that systems support both the old and new standards. And, in theory, it should offer longer range, providing better coverage in homes and requiring fewer access points in offices or schools.

There's one huge drawback to 802.11g, however. It shares a band with Wi-Fi and other devices. As wireless networks proliferate, interference will get worse and worse. This boosts the chances that 802.11a, which allows for at least five

times as many independent networks operating within range of each other, will become the new standard.

The danger here is that confusion spurred by this proliferation of numbers and letters will stall the growth of a useful technology. WECA is drafting a standard called Wi-Fi 5 (for the 5 GHz frequency the new systems use) to handle issues of compatibility between "a" and "b" but has not yet decided what to do about "g." For now, consumers can buy Wi-Fi systems with confidence they will work with whatever comes along. But if you are worried about compatibility, it might be a good idea to avoid the temptation to go with a faster 802.11a system until the dust settles.



BusinessWeek online

A COLLECTION OF
COLUMNS and
e-only reviews of
technology products, go
Technology & You at
businessweek.com/technology/

BY ROBERT KUTTNER

PERMANENT TAX CUTS ARE THE LAST THING WE NEED



BAD BET
With deficits extending until who-knows-when, only the narrowest of interests will be served by carving the tax cuts into stone

Robert Kuttner is co-editor of *The American Prospect* and author of *Everything for Sale*.

The Republican House, seconded by President George W. Bush, voted in April to make permanent the entire \$1.35 trillion tax cut of 2001. This proposal is highly unlikely to pass in the Senate, so last week the House passed a separate bill to force an early Senate vote solely on permanent estate-tax repeal. Either idea is astonishing, given the worsening budget imbalance.

When the tax cut was enacted a year ago, the economy was not yet in recession and September 11 had not yet happened. Surpluses were projected indefinitely. Since then, the non-Social Security budget has gone from \$68 billion in the black in the first seven months of fiscal year 2001 to \$185 billion in the red for the first seven months of FY 2002—a negative swing of \$253 billion. Tax receipts are down \$159 billion, while spending, mostly for anti-terrorism purposes, is up \$95 billion.

Some of this fiscal deterioration reflects a weaker economy, but much of it was the deliberate fruit of tax policy. Over the full FY 2002, Bush's big tax cut will cost \$71 billion in reduced revenues. An additional \$43 billion in revenue will be lost by the 2002 "stimulus" package, largely corporate tax cuts.

I'm not one of those who equates temporary deficits with fiscal sin. In a recession, we need deliberate deficits as countercyclical stimulus, whether through public spending or tax cuts. But this year's deterioration is not such a deficit. It's a structural hole in the revenue stream that will become enormous if the tax cuts are permanent.

Congressional Budget Office projections suggest that a permanent tax cut would create permanent deficits, excluding Social Security. In its latest long-term report, in March, the CBO forecast budget deficits in eight of the next nine years. Of the worsening fiscal picture over the decade, says the CBO, \$2.4 trillion reflects changes in tax laws. By 2011, if the tax cut is extended, the annual non-Social Security deficit would be around \$300 billion. This is just when large numbers of baby boomers retire and Medicare costs will skyrocket.

Given these figures, it is incredible that serious people, much less serious conservatives, want deeper tax-cutting. As recently as the 2000 Presidential election, both candidates played steward of the surplus. Al Gore proposed to put the general surplus into his famous lockbox to bolster Social Security's finances. Bush insisted the surplus was so robust that Washington could cut

taxes and safeguard Social Security, too. Once in office, Bush abandoned that charade. Instead of subsidizing Social Security, the general budget will raid it. The budget erosion also obliterates the White House's claim that payroll tax receipts could be diverted into private retirement accounts without jeopardizing Social Security benefits.

Let's also recall that the key bipartisan promise in last year's big tax cut was the provision requiring it to sunset after 10 years. But, evidently, that's inoperative, too. The tax cut was deliberately "rear-loaded" to downplay its cost between 2001 and 2006. The really big revenue losses occur in the final four years, long after Bush has come up for reelection.

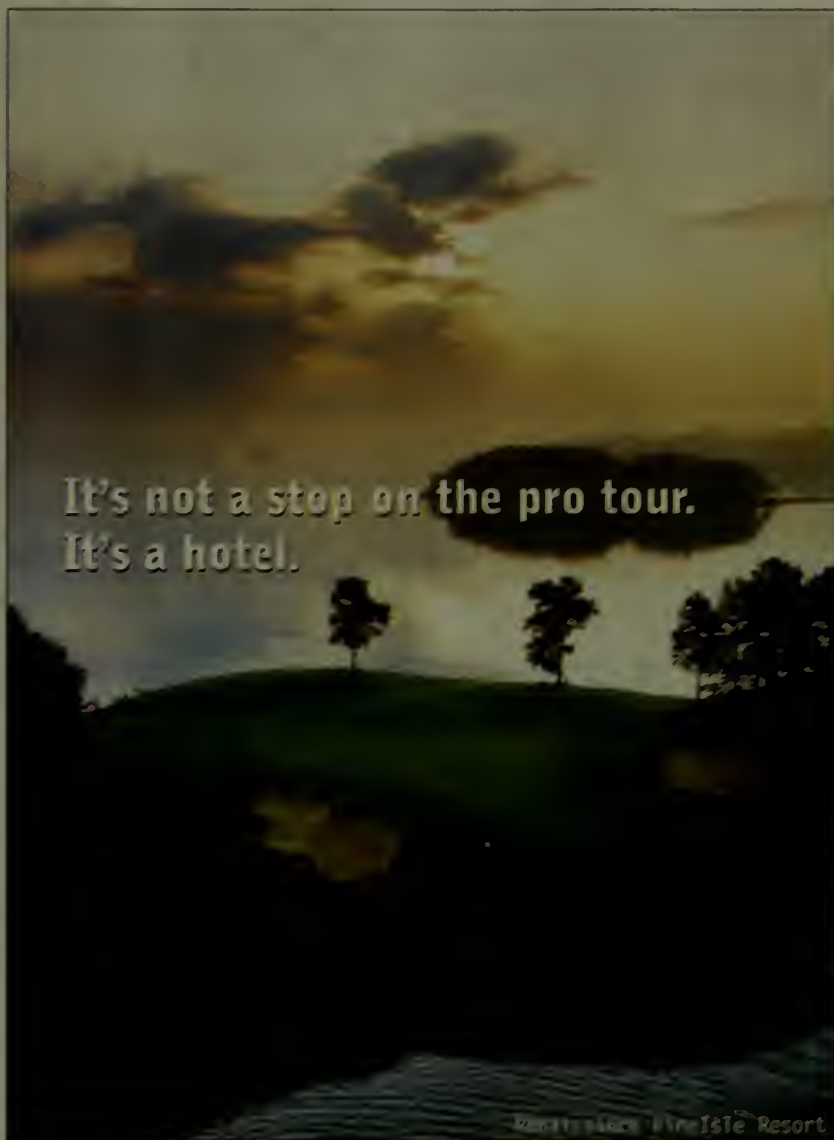
The CBO, using fairly optimistic gross domestic product growth projections of about 3.2% annually, projects that extending the tax cut for a second 10 years would cost not the \$1.35 trillion of its first decade but \$4 trillion—an average of \$400 billion a year. This would create a permanent structural deficit, like the one of the 1980s, only worse. Didn't we learn this lesson once?

To camouflage the real impact, conservative think tanks are now trotting out the old, discredited idea that tax cuts so stimulate growth that we should pad projections of future revenues. This cooking of the books is termed "dynamic scoring." Sorry, but that conceit died in the 1980s. Indeed, it was in the 1990s that growth took off after two widely deplored upper-bracket tax hikes.

Mercifully, dynamic scoring is failing to attract support, even with such honest fiscal conservatives as Dan Rostenkowski, the Republican staff director of the CBO, or Lindy Paul, the Republican chief of staff of the Joint Tax Committee.

So why would any prudent Republican politician play this kind of roulette with the economy? For the same reasons Ronald Reagan did: First, a tax cut for the wealthy rewards political allies; second, it starves the public sector of revenue, making it impossible to finance new spending programs in keeping with the GOP's small-government crusade. For instance, repeal of the estate tax alone will cost \$80 billion a year between 2011 and 2021—enough to finance a universal child care or a better prescription drug program.

No one—and certainly no fiscal conservative worthy of the label—should be playing these political and fiscal games. Both the budgetary and economic stakes are far too high for ideological trump sound policy.



interesting

If you can picture the good life, you're likely to find it at a Renaissance hotel. Watch your golf ball nestle softly on a breathtaking fairway, or relax and discover a new taste sensation. It's not a fantasy. It's your weekend getaway. Book soon and you can experience Renaissance at a special weekend rate.



RENAISSANCE® HOTELS

\$59-\$89 Come Out & Play™ weekend rates if reserved by June 28
Book by June 28 for our Come Out & Play weekend rates, good through Labor Day.
Call 1-800-840-3880, visit renaissancehotels.com or contact your travel agent.



Special offer on participating properties. See renaissancehotels.com for details. Offer may vary by property. Tax and resort fees may apply. ©2008 Marriott International, Inc. 2/08

EDITED BY PETER COY

THE PAYOFF FROM FREE TRADE

"Open" countries fare better

It's an article of faith for most economists that freedom of trade pays off in economic growth. Their faith is supported by hard numbers in a study from the free-market-oriented Fraser Institute in Vancouver, B.C. The study, written by economists James D. Gwartney of Florida State University and Robert A. Law-



son of Capital University in Columbus, Ohio, finds that countries with the freest trade had the highest gross domestic product growth from 1990 to 2000. The top fifth of countries ranked by freedom of trade had average annual per capita GDP growth of 2%, adjusted for inflation, from 1990 to 2000 (chart). The bottom fifth on the free-trade scale saw inflation-adjusted GDP per capita grow a mere 0.2% annually during that period.

Gwartney and Lawson define freedom of trade—or "openness"—to include low tariffs, a currency that's easily convertible, a high percentage of imports and exports relative to GDP given the country's size, and fairly unrestricted capital markets. Openness is one of several criteria that figure into their annual *Economic Freedom of the World* country rankings.

Richer countries tend to be more open than poorer countries. The top fifth of countries ranked by openness had an average per capita GDP of \$23,401 in 2000. That's more than twice the \$9,852 average for the second quintile, and more than six times the \$3,621 of the 20% of countries with the most restrictive trade conditions.

There are some surprises in the rankings. The U.S. comes in at 23rd out of 116 countries in openness, well

behind No. 1 and No. 2: Hong Kong and Singapore. "Hong Kong and Singapore have fewer tariffs and quotas than the U.S.," observes Gwartney. Japan and China rank just below the median for openness.

The rankings also reflect the importance of free trade to smaller countries, which have to reach outward to benefit from economies of scale in production. And geographically small countries are likely less able to produce their own raw materials, so there's less internal pressure for protectionism by commodities producers.

By Margaret Popper

DO POLLUTERS HEAD OVERSEAS?

A study dings a widespread belief

Critics of globalization have long alleged that multinationals essentially export pollution to developing countries by putting their dirtiest operations there.

A new study says that isn't true. Gunnar S. Eskeland, a researcher at the World Bank, and Ann E. Harrison, an economist at the University of California at Berkeley, say that, for one, the cost of pollution control just isn't high enough to warrant international relocation. From the 1970s through the early 1990s, the average amount U.S. manufacturers spent to comply with pollution-control laws was about 1% of their total costs, according to Eskeland. Even basic chemical industries with the highest costs of keeping clean spent only about 3% of their total costs on pollution control. "There are so many other factors that are much more important than pollution costs, such as the size of the domestic market," says Harrison. For instance, she says, China is attractive more for the size of its domestic market than for its relatively lax pollution-control laws.

And multinationals operating in developing countries often have the cleanest factories in the market. That's partly because their factories are newer and they have the capital to spend on the best machinery, which is usually also the cleanest. But it's also because multinationals are aware that they have to please the crowd back home, no matter where their factories are.

Between shareholder and consumer activists, pressure on corporations to treat the environment well rose significantly during the 1990s, reckons Harrison. "They know there is an image is-

sue," she says. "And eventually, the developing countries where they have factories will have regulations similar to the developed countries."

By Margaret P

ADDING TO THE PINK-SLIP PILE

The job-loss data are revised up

The latest numbers from the Dept. show that the downturn in the job market over the past year was worse than previously believed. According to its annual benchmark revision of the data, nearly 1.8 million jobs were lost from March, 2001, when the revision started, to April, 2002, the recently revised month. That loss is higher than previously estimated.

Nevertheless, the new data show some industries have added substantial numbers of workers. For example, mortgage banks and brokerages had to dig like crazy to meet the demand for financing. Measured from May, 2001, to May, 2002, employment in that industry rose by 12.4%.

Over the same period, job growth was surprisingly strong in management consulting and public relations, rising 4.4% despite the slowing economy. Employment in legal services continued to rise at a 2.7% clip. And the aging population and the loosening of aged-care cost controls helped hospitals post a 3.5% increase in employment.

But at the same time, the government figures show clear evidence of a technology bust. Payrolls at maker of electronic and electrical equipment fell 14.1%, while jobs at computer companies slumped by 13.2%.

And let's not forget about the effects of the bear market. Jobs at securities and commodities brokers fell 7.7% through May. Meanwhile, the recession caused companies to slash advertising, contributing to a 6.4% decline in the advertising-dependent printing and publishing businesses. All in all, it's been a pretty bad stretch for the job market.

THE UNEVEN JOB PICTURE	
PERCENT CHANGE IN EMPLOYMENT, MAY, 2001 TO MAY, 2002	
GAINERS	
MORTGAGE BROKERS	12.4
SOCIAL SERVICES	4.4
HOSPITALS	3.5
PRIVATE EDUCATIONAL SERVICES	2.7
LOSERS	
ELECTRONIC AND ELECTRICAL EQUIPMENT	-14.1
TEXTILE PRODUCTS	-10.0
AIR TRANSPORTATION	-10.0

Data: Bureau of Labor Statistics

AMES C. COOPER & KATHLEEN MADIGAN

THE FED'S SUMMER VACATION COULD LAST THROUGH AUTUMN

With uncertainties may keep interest rates on hold for a long while

U.S. ECONOMY

Policymakers at the Federal Reserve will sit down on June 26 to hammer out their view of the economy's future and how that outlook will determine monetary policy. Expectations are that the Fed will hold short-term interest rates steady at its June meeting. But it's important, chances are growing that the central bank could stay on the sidelines until yearend. That was hardly the sentiment in the financial markets just a few months ago. By late March, investors had bid up the contract rate for federal funds futures scheduled to settle in December, 2002, to 3.4%. In other words, investors were betting that, by yearend, the Fed would push the target rate for fed funds to near twice its current 1.75% level.

CHANGING EXPECTATIONS OF FED RATE HIKES



B. 6, '02 JUNE 10 '02

International Strategy & Investment

But now, the December futures rate is down to only 2.3% (chart). That works out to just two quarter-point hikes during the Fed's five remaining meetings in 2002. Most economists now see the first increase in September, and a few think the Fed will not hike until 2003. The change of heart seems to dismiss the economy's stellar performance.

Surprisingly upbeat second-quarter data are following on the heels of a 5.6% surge in real gross domestic product in the first quarter. That winter surge was one reason behind the earlier expectations for Fed tightening.

Other factors, however, are now coming into play, and it could well stay the Fed's hand for a long while. In particular, recent comments by Fed officials, including Chairman Alan Greenspan, show they have little inclination to move policy away from its current, stimulative stance.

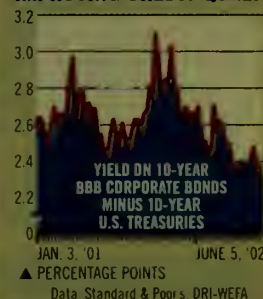
POLICYMAKERS

will certainly make their decisions with one eye on the current corporate upheavals (page 27) and the fallout on stock prices. Policy decisions will be affected by lackluster labor markets and the timing of government economic reports. Plus, the Fed will place heavy emphasis on prospects for capital spending and the lack of price pressures in setting rates, not to mention the ongoing threat of terrorism. Questions about corporate governance and accounting practices have both shaken and angered investors. The

growing lack of confidence in earnings reports, as well as criminal indictments, have roiled the stock markets, even as the prospects for economic growth and profits have brightened. Newly appointed Fed Governor Susan S. Bies has spoken twice on corporate governance, while San Francisco Fed President Robert T. Parry said uncertainty about profits has been "accentuated by concerns about corporate accounting practices."

Policymakers recognize that these Enron-triggered equity woes have little to do with what is going on in the real economy. Other areas of the financial markets are waking up to the brighter outlook. For example, while the stock market frets over corporate balance sheets, the bond market sees fewer dangers. The spread between moderately risky corporate bonds and riskless Treasury bonds has narrowed significantly since the beginning of the year. That means bond investors see less of a credit risk among corporations (chart), and companies are tapping the bond market to raise funds to finance business activity.

NARROWING SPREADS IMPLY IMPROVING CREDIT QUALITY



Also, fewer banks are tightening their lending standards, making more money available. The yearlong slide in bank loans to commercial and industrial businesses shows signs of bottoming out in recent weeks.

HOWEVER, THE GROWING DISTRUST of Corporate America is dragging down the stock market, an issue that could well hamper the recovery and complicate future policy. The drop in equity prices is a de facto tightening of financial conditions, making it harder to raise funds for capital projects, hire people, and finance new products. The Fed will offset this market restraint by maintaining its own accommodative stance.

Worries about the recovery won't go away anytime soon. The latest May reports on retailing, car sales, and payrolls suggest real GDP growth in the second quarter is far slower than its first-quarter gallop. Even Greenspan noted on June 4 that "we're going through a soft spot right now." A slow spring, to a great extent, will reflect payback for the first quarter's exaggerated strength, some of which was "borrowed" from the second quarter as a result of unusually mild weather.

Nevertheless, the first read on second-quarter GDP

Business Outlook

will not come out until July 31, soon before the Fed's Aug. 13 meeting. If real GDP is growing at around a 2% annual rate this quarter, the Fed will have another reason to hold rates steady through the summer or even into autumn as it scours the monthly data to determine what the pause may mean for second-half growth. All the while, inflation, which is already low and tends to decline in the first year of a recovery, will give the Fed plenty of leeway to keep rates low.

MOST IMPORTANTLY, the Fed will focus on the monthly employment reports to gauge the state of the labor markets. Historically, the Fed does not start to lift interest rates until the unemployment rate has begun a sustained downtrend.

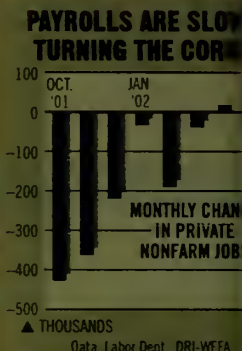
Does the May drop in the unemployment rate to 5.8% from 6% in April indicate that rate hikes are on the way? Hardly. Overall, the May job report was uneven, and job growth is far from the gains of greater than 150,000 per month needed to send the jobless rate on a lasting downward slope. The Fed will prefer to wait for more concrete signs of a firmer labor market before it adjusts its policy stance.

According to the May employment report, private payrolls rose by a small 27,000 last month, after a revised 18,000 increase in April (chart). Hiring at temp agencies led the job gains, while manufacturers continued to lay off workers and construction employment

held virtually steady, as did the overall workweek the plus side, factory overtime edged up by six min in May, and 50.6% of industries added workers month, the highest rate in 17 months. More over and broadening job gains typically presage more hi

Consumers may have to get used to a mixed bag of job reports. As long as businesses can use productivity gains—instead of hiring workers—to boost output, the labor markets won't tighten much. The plus side to productivity is that most workers are still receiving pay raises that are above the inflation rate. In May, the yearly growth rate in the average hourly wage for production workers was 3.2%, down a full percentage point from May, 2001. However, pay grew 2.1%, up from 1.8% this time last year.

Productivity trends will be only one factor that policymakers take into account when they sit down to map out their expectations for the economy. It's a bet that the Fed will take no action in June and a good bet they will remain idle in August. And if economic circumstances change significantly, policymakers could even extend their summer vacation through the rest of the year.



BRAZIL

TIGHT MONEY STRANGLES A RECOVERY

South American giant Brazil has stumbled into recession, its second in four years. Real gross domestic product fell 0.7% in the first quarter, after a similar decline in the fourth quarter.

Despite the back-to-back drops, analysts expect a second-half rebound, and for all of 2002, real GDP could grow 2.3%. Right now, though, high interest rates are pummeling commercial lending, construction activity, and manufacturing. Power rationing has stalled energy output, and unemployment in São Paulo tops 20%.

High borrowing costs are the result of tight monetary policy as well as fears about the future of outgoing President Fernando

Henrique Cardoso's market-friendly reforms. Luiz Inácio "Lula" da Silva is the front-runner in the October presidential election, and the leftist candidate has said in the past that Brazil should stop

BRAZIL'S CREDIT QUALITY IS DETERIORATING



payment on its foreign debt. Recently, Lula has moved closer to the political center, but investors fear the former labor leader's restraint may be mere electioneering.

Although Brazil's woes are mostly homegrown, the prolonged inertia in cri-

sis-ridden Argentina has compounded the problems. Brazil's austere fiscal policy is hardly comparable to Argentina's reckless one. But investors have pushed yields on Brazil's publicly traded

debt to levels unseen since October when the Argentine crisis flared up (chart). The bulk of the debt, which equals 55% of GDP, must be rolled over in the next 15 months. The real has slid 16% against the U.S. dollar in two months. And foreign direct investment will likely fall to \$16 billion this year from a 2001 total of \$20 billion.

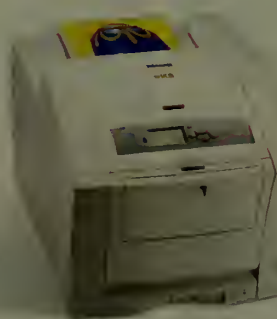
In addition, the International Monetary Fund has renewed talk over Brazil's loan package. Such concern is a sharp turnaround for the IMF: As recently as May 7, IMF Deputy Director Anne Kreuger said Brazil wasn't anywhere on the IMF's radar screen. But signs of recession and a weakening currency have seemingly shifted that view.

By Joshua Goodman
Buenos Aires

BREAK OUT



Go beyond black and white. Get stunning color that's surprisingly affordable with the Xerox Phaser 8200 printer. There's a new way to look at it.



every idea you hatch can look brilliant. At only \$1499,* the Phaser® 8200 color printer offers rich, vibrant color and crisp black and white up to 1200 dpi — all at a surprisingly low cost per page. Just as attractive as its low cost is its high speed. With an industry-leading first-page-out of only

9 seconds and 16 ppm full color, the Phaser 8200 is faster than 90% of today's office printers.† What's more, it's just one of a full line of office printers designed to help your business break out and sparkle. For more information, call 1-877-362-6567, ext.1879 or visit xerox.com/officeprinting/egg1879

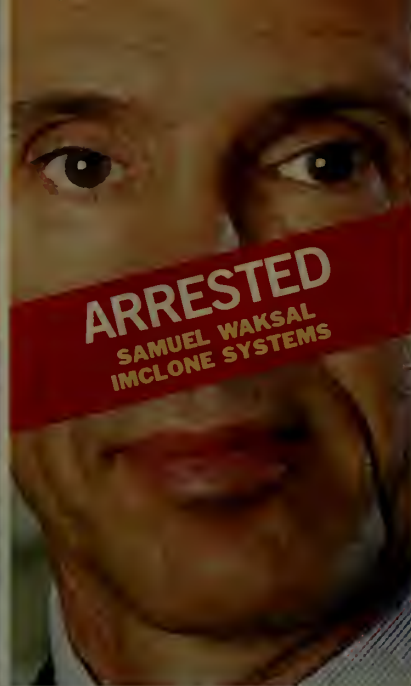
THE DOCUMENT COMPANY

XEROX.

© 2002 XEROX CORPORATION. All rights reserved. Xerox®, The Document Company®, Phaser® and There's a new way to look at it® are trademarks of XEROX CORPORATION. *Estimated US retail price. Reseller price may vary. †Based on current market data by IDC. Imperial Eggs by Peter Carl Fabergé. Spring Flowers. Chanticleer. Coronation. The Forbes Collection. New York. © All Rights Reserved.



INDICTED
DENNIS KOZLOWSKI
TYCO INTERNATIONAL



ARRESTED
SAMUEL WAKSAL
IMCLONE SYSTEMS



RESIGNED
JEFFREY SKILLING
ENRON



RESIGN
KENNETH
ENRON



RESIGNED
JOSEPH BERARDINO
ANDERSEN WORLDWIDE



RESIGNED
BERNARD EBBERS
WORLD.COM



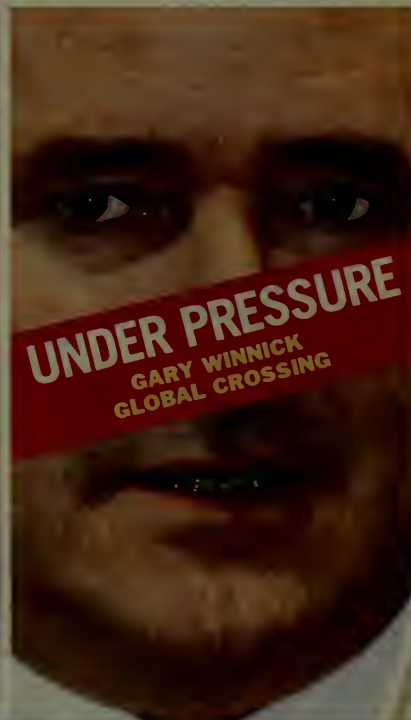
RESIGNED
JOHN RIGAS
ADELPHIA COMMUNICATIONS



RESIGN
WILLIAM MCCOOMB
CMS ENERGY



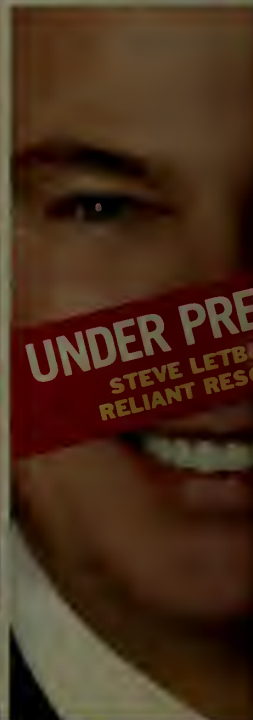
RESIGNED
CHARLES WATSON
DYNERGY



UNDER PRESSURE
GARY WINNICK
GLOBAL CROSSING



UNDER PRESSURE
JOSEPH NACCHIO
QWEST COMMUNICATIONS



UNDER PRE
STEVE LETBEY
RELIANT RESOURCES

RESTORING TRUST IN CORPORATE AMERICA

Business Must Lead the Way to Real Reform

JOHN A. BYRNE

The lobbying started early. Even before the New York Stock Exchange could release its far-reaching proposals to upgrade corporate-governance standards, Chairman Richard A. Grasso began fielding calls from chief executives. Then came the letters of protest—at least a dozen of them—from some of the top business leaders in America, including the CEOs of General Mills Inc. and AT&T.

All of them are members of the Business Roundtable, the group of big-league bosses who typically weigh in on public policy issues. Fannie Mae CEO Franklin D. Raines initiated the campaign in late May, urging his Roundtable brethren to line up against the NYSE plan to require companies to put all stock-option plans to shareholder votes. In a letter to Grasso, General Mills Chairman Stephen W. Sanger

denounced the idea as “counterproductive” and suggested that the exchange “proceed incrementally in this area.” In fact, the NYSE governance committee avoided the more controversial and politically charged issue of expensing stock options by recommending this much more modest proposal.

The opposition wasn't unexpected, but it was surprising that the Roundtable, which tried in May to preempt the recommendations by releasing its own much more vague proposals, would pounce even before the report was in the mail. “The letters I received were all from Roundtable representatives,” says the NYSE's Grasso. “But they are going to have to balance how the public feels right now with their position, and frankly this market shows that people aren't feeling very good.”

To many critics, Corporate America's leaders seem shockingly out of touch, blind to the deterioration in public confidence. A seemingly endless stream of bad news alleging widespread management negligence and malfeasance is chipping away at the trust vital to a free-market system. CEO L. Dennis Kozlowski of Tyco International Ltd. was indicted, and Samuel D. Waksal, CEO of ImClone Systems Inc., was accused

(CLOCKWISE FROM TOP LEFT) PHOTOGRAPHS BY CHRIS CASABURI; MARC BRYAN BROWN; MARK WILSON/GETTY IMAGES; © 2002 JAY MALIN/PICTUREDESK; ALEX WONG/GETTY IMAGES; MARSHALL; KIM KULISH/CORBIS SABA; CMS ENERGY VIA BLOOMBERG; DAVID J. PHILLIP/AP PHOTOGRAPHY; DAVID C. MAINTON/PICTUREDESK; VINCE BUATO; PHILIPPO/REUTERS

of egregious breaches of trust and abuse of power within eight days of each other. Meanwhile, in Houston, a jury deliberated on the fate of Andersen Worldwide, once one of the nation's most respected auditing firms, accused of destroying evidence in the investigation of Enron Corp. These scandals follow a parade of outgoing CEOs that included Kenneth L. Lay of Enron, Bernard J. Ebbers of WorldCom, and John J. Rigas of Adelphia, all forced to step down amid questions of abuse, incompetence, or both. Over the same period, other CEOs supplemented their mammoth paychecks by cashing in giant option grants just before steep stock declines.

In a recent speech at the University of Michigan, former Secretary of State James A. Baker III said that "the genius of capitalism is to pacify a destructive human characteristic, greed, into benign self-interest—something we know as 'incentive.'" But in the anything-goes 1990s, greed overwhelmed the system because there were no countervailing forces to keep it in check. Instead, there were accounting firms, which were bent on drumming up lucrative consulting fees; outside lawyers, intent on maintaining their flow of business from corporations; and directors, who failed to exercise oversight as the fiduciary representatives of the shareholders.

Rarely have business and its leaders been held in such low esteem. Yet even as the crisis becomes more dangerously disruptive for the market and the economy, most of the business community has been silent. Worse, it has lobbied against sorely needed reform. "I can't understand the opposition," says New York Comptroller H. Carl McCall, a co-chairman of the NYSE committee behind the proposed changes in governance standards and candidate for governor. "This is good for corporations. This is an opportunity for corporate leaders to stand up and say: 'We are going to do everything possible to restore confidence and safeguard your investment.'" Working against reasonable reforms, he adds, will only further undermine public trust in business leadership.

So far, the biggest push for reform is coming not from Corporate America but from Wall Street and the marketplaces, which are acutely sensitive to investor sentiment (page 36). The first high-profile CEO to step forward and call for reform was Henry M. Paulson Jr. of investment banking powerhouse Goldman, Sachs & Co., who anticipates that stock options will eventually be treated as an expense on a company's income statement and believes that corporate insiders should be required to give back any gains from stock sales made less than a year before a bankruptcy: both unwelcome ideas to many CEOs. "In my lifetime, American business has never been under such scrutiny," Paulson said in a widely publicized speech before the National Press Club. "To be blunt, much of it is deserved."

If the nation's business elite fails to recognize the seriousness of the erosion in confidence, it will jeopardize what the business community ultimately wants: a free-market economic system, based on the participation of investors, without heavy-handed regulation or interference from Washington. That's why business must lead the way to reform. "It doesn't appear that Congress will be able to get its act together to do

anything," says Leon Panetta, former White House chief of staff and another co-chair of the NYSE governance panel. "Ultimately, this is a responsibility of the private sector, not government itself."

Part of the reluctance of CEOs to step up is the result of how far the taint has spread. The poster children of the crisis are garnering the headlines, but Enron, Global Crossing, Andersen, Tyco, and WorldCom are merely the more visible symbols of a far deeper and disturbing cultural shift in corporate mores.

When a company as respected as Enron shovels \$290 million into the sale of a business, its income statement shows goose results, as the computer giant did last year as a sign of pervasive abuse. The maneuver may have been legal, but it was blatantly deceptive. In many of the nation's most prominent companies, from Microsoft Corp. to Xerox Corp., have been forced to restate their financials. From 1995 to 2001, restatements

steadily climbed from 50 a year to more than 150 a total of 722 public admissions that the numbers were wrong they had to be redone. And if those restatements continue at the first quarter's pace of 60, they will reach 240 this year alone.

So what happened to corporate ethics? The root of the deterioration dates back 20 years, to the start of an unprecedented era of prosperity that transformed CEOs into cultural heroes. From a time when many feared the U.S. would be overwhelmed by a super-efficient Japan, America's business leaders helped to make the U.S. the world's most productive economy. A return to business basics, along with a flowering of innovation and entrepreneurship, led to a celebration of corporate chieftains. Capital freely flowed into a financial system based on trust, stability, transparency, and the assurance that checks and balances made the stock exchanges a marketplace for every player.

Nobody got fatter during the boom than the newly influential CEOs, who were increasingly compensated with massive stock-option grants. That meant their success—and their home pay—became directly related to how high they could nudge their stock price. Indeed, the great paradox of the

GOING UP

As options grants have soared, so too has executive pay



Data: Pearl Meyer & Partners Inc.

Accounting: Cozying Up To Congress

Data: Center for Responsive Politics using Federal Election Commission reports through June 3. House figures cover 2001-02 cycle. Senate figures cover 1997-2002 cycle.

The accounting profession has been particularly generous to Congress. During current election cycles, it has given a total of \$2.1 million to 61 House Financial Services Committee members and 21 Senate Banking Committee members. Both panels are considering accounting legislation. The top 10 recipients in each chamber are

In my lifetime, American business has never been under such scrutiny. To be blunt, much of it is deserved."

**-HENRY M. PAULSON JR.
CEO, GOLDMAN SACHS**

l "shareholder revolution" of the past two es is that CEOs gained exponentially in power, nce, and certainly pay. Pressure from institu- shareholders unwittingly led to massive trans- of wealth from investors to senior executives, under the guise of lining up management's in- ts with those of shareholders.

king sure that managers actually act in the interests of shareholders is supposed to be ob of the board of directors. But as stock s rocketed upward in the '90s, they became as ialized as investors. The incoming CEO of a led company recently joked to a governance ntant that his boardroom "is like an aquarium with dead fish." Angry shareholders at many anies today are wondering if it would make lfference if the fish were alive.

ny CEOs seemed to operate almost without int. At WorldCom, now under investigation by Securities & Exchange Commission, the board gave its ing to a \$366 million loan to CEO Ebbers in late 2000 so he could cover a margin call on his personal invest- in the company's stock. Tyco's board approved a \$20 mil- onus to one of its members for helping with the acqui- of CIT Group Inc.—which the company is now trying to d at just half of the \$9.5 billion it paid only a year ago. dismiss the rising swell of calls for substantive reform is more fundamental problems that led to widespread fi- al manipulation and outright greed. "It's like the cardi- screaming that this whole business of abuse of minors is thing concocted by the press," says Jay W. Lorsch, a gement professor at Harvard Business School. "The



media didn't create that problem, and the media didn't create this problem in the business community."

So why aren't more business leaders willing to speak out publicly? Many are fearful of inviting scrutiny of themselves or their companies. "There is a little circling-of-the-wagons here," concedes the recently retired CEO of a NYSE-listed company. "They're scared. They're afraid that they are going to get it next."

Others simply don't see the problem. Privately, many CEOs say that the companies in the headlines are anomalies that have been blown out of proportion by sensation-mongering media. "Everything is spun as if you did something wrong," says one who declined to be named. "It's this air of implica-

tion." The result, he claims, is a search-and-destroy mission by short-sellers and business reporters for any company with even the slightest whiff of accounting impropriety or executive excess.

Many CEOs point out that most American corporations play by the rules and are run by honest people. "I think it's unfortunate that the misdeeds of a few have had the effect of creat- ing questions and under-

SENATE	
ES E. SCHUMER (D-N.Y.)	\$367,181
TOPHER J. OODD (D-Conn.)	182,320
SANTORUM (R-Pa.)	92,897
BAYH (D-Ind.)	80,074
ET F. BENNETT (R-Utah)	77,753
ENSIGN (R-Nev.)	74,636
EL B. ENZI (R-Wyo.)	63,979
INNING (R-Ky.)	54,124
GRAMM (R-Tex.)**	49,000
E ALLARD (R-Colo.)	46,620

HOUSE	
1 MIKE FERGUSON (R-N.J.)	\$31,000
2. BRAD SHERMAN (D-Calif.)	29,150
3. ERIC I. CANTOR (R-Va.)	28,150
4. MIKE ROGERS (R-Mich.)	26,703
5. FELIX GRUCCI (R-N.Y.)	26,500
6. GARY MILLER (R-Calif.)	24,500
7. KEN R. LUCAS (D-Ky.)	24,042
8. WALTER B. JONES (R-N.C.)	23,000
9. VITO J. FOSSELLA JR. (R-N.Y.)	22,854
10. DENNIS MOORE (D-Kan.)	21,104

**Gramm has announced his retirement at the end of this year.

mining the confidence of business in general," says James F. Parker, CEO of Southwest Airlines Co.

Many chief executives also argue that market forces are the best corrective and that much of the investor angst has other origins. They say that economic populists have seized on the spate of bad news as an excuse to legislate issues that should be left to the companies and a self-correcting market. If investors are jittery and disillusioned, many chief executives steadfastly maintain, it's a hang-over effect from the bursting of the dot-com bubble, terrorism, and the possibility of a nuclear war between India and Pakistan—not ethical lapses in Corporate America.

Fortunately, there has been no stampede by investors out of the market. The Standard & Poor's 500-stock index is down 10% so far this year—bad, but not disastrous. But holding the public's trust is not unlike damming a river. Small leaks can quickly and unexpectedly gush into a flood that wreaks massive damage. Tyco alone has lost \$100 billion in market value, a sum that exceeds Enron's total. With the market down, despite favorable economic news, the dam is certainly leaking—and nearly everyone knows it, from Washington policy wonks to institutional shareholders. "If only 10% of what you read about Enron is true, this is a major, major problem," says Harry M. Jansen Kraemer Jr., chairman of Baxter International Inc.

Behind the sins of Enron and other corporations was the corrupting effect of stock options. They led to massive CEO pay inflation in the 1990s. But the toxic effects of that rise became clear only as the bull market began to ebb. Even while shareholders were losing millions of dollars, executive after executive seemed to be cashing in on an unsupervised lottery. At now-bankrupt telecom provider Global Crossing Ltd., Chairman Gary Winnick sold \$735 million in company stock from 1999 to last November. At Enron, Chairman Lay sold more than \$100 million in stock over the past three years—even while publicly insisting that he wasn't cashing out. The same was true at Tyco, where CEO Kozlowski and his chief financial officer unloaded more than \$500 million of stock, quietly selling it back to the company, a trick that allowed them to delay any public disclosure of their sales.



Why did boards hand over such huge sums to begin with? "Boards get in awe of a Ken Lay [at Enron] as long as the stock price goes up," says William W. George, former CEO of Medtronic Inc., who has broken ranks with many of his colleagues to speak out for more progressive reform in governance. "Greed takes over." It takes unusual courage for a director to challenge a CEO in a company whose share price is doubling every two years or so. As Harvard's Lorsch points out, "every board's worst nightmare is that a good CEO will walk away because he's not being paid enough."

“My fear is that if we don't step up, it's going to look like we all have our fingers in the cookie jar”

**—WILLIAM W. GEORGE
FORMER CEO, MEDTRONIC**

Many of the ethical lapses and lapses that have been faced in recent months are a direct result of the vast wealth that suddenly was in reach of mediocre executives. "Corporate responsibility is mainly a matter of attitudes, and the attitude got corrupted by the mentality of the market in the 1990s," says Alan A. Volcker, the former Federal Reserve Board chairman (page 42). The word 'greed' is going to be said as a joke to people thinking that 'greed is good' was a fundamental fact."

If some CEOs are fighting to retain the status quo, partly because they've benefited wildly from it. They want to see big reforms that are going to cut back on stock options or their own power in the boardroom. Without moving into an Enron, a lot of companies played games with their earnings, going all out to meet Wall Street's expectations and juice the stock. Few want to stand up and take a stand when they know that they, too, pushed the limits.

Meantime, others resist the most moderate idea of reform. Consider Thomas A. James, CEO of NYSE-listed Lombard James Financial Inc. He is publicly against the notion that a public corporation, which avails itself of public capital, should have a majority of independent directors on its board. "In my mind," James said, "there is no evidence that there is any advantage to having more outside members." Only

Shining A New Light on Earnings

HOW MUCH DOES A COMPANY TRULY MAKE? It's hard to tell these days. To boost the performance of their stocks, companies have come up with a slew of self-defined "pro forma" numbers that put their financials in a favorable light. The ratings agency Standard & Poor's has devised a truer measure known as Core Earnings.

THE GOAL To provide a standardized definition of the earnings produced by a company's ongoing operations. Of the main changes from more traditional measures of profit: Income from pension funds is excluded; the cost of stock options are deducted as an expense; other big change boosts earnings by adding back in the charges taken to adjust for overpriced acquisitions. See the top 10 losers and winners under Core Earnings:

BusinessWeek online

For core earnings tables for the entire S&P 500, go to www.businessweek.com/investor

Data: Standard & Poor's

board's 13 directors are without a business or family tie to the company. Interestingly, roughly a quarter of the companies on the NYSE, including in-

American Financial Group Inc. and tech player EMC, still boast a majority of independent members. At the same time, the organization is behind-the-scenes opposition to any notable reform, such as the accounting provisions of the Sarbanes-Oxley Act. The organization's aggressive lobbying in Congress has stymied any change, accompanied by hefty campaign contributions. Or Roundtable's opposition to shareholder proposals on stock-option plans. The organization is the current system—where votes are cast only on executive compensation plans, not on shareholder-based equity plans—that provide options to large numbers of employees. "There is a danger of acting in a self-serving way if

management is not a participant in the plan," says Raines, former CEO of Fannie Mae and chairman of the Roundtable's task force on corporate governance. "Management should have more flexibility in using the stock if it's compensation for a large number of employees." Others disagree. "It's the shareholders' money, for good or bad," counters Charles M. Elson, director of the corporate governance center at the University of Delaware. "This is not a wild-eyed or off-base reform. If you are driving the dickens out of the shareholders, they have the

“I think it's unfortunate that the misdeeds of a few have had the effect of creating

questions and undermining the confidence of business in general”

**—JAMES F. PARKER
CEO, SOUTHWEST AIRLINES**



right to vote on it. It's basic shareholder democracy."

If investor confidence is wounded—as most observers believe—then the best chance of restoring it rests on business leaders getting behind the agenda for change. No one can legislate honesty or competence. But the system cannot afford a business community that is unwilling to speak out against dishonesty or incompetence, or business leaders determined to fight intelligent and legitimate reform. "My fear is that if we don't step up, it's going to look like we all have our fingers in the cookie jar," says former Medtronic CEO George.

Ultimately, Corporate America's business leaders must lead the way to change. As Paulson of Goldman Sachs reminded everyone: "Integrity is the cornerstone, if not the bedrock, upon which all financial markets are based." If business is to avoid a potential flood that threatens to wash away the trust essential to our free market system, its leaders must stand up and lead—not block—substantive reform.

With Michael Arndt in Chicago, Wendy Zellner in Dallas, and Mike McNamee in Washington

LOSERS

	TRADITIONAL EARNINGS 2001	S&P CORE EARNINGS 2001	DECLINE
	In Billions		
	\$4.328	-\$0.049	-\$4.377
	7.723	4.854	-2.869
	7.721	5.459	-2.262
ELECTRIC	14.128	11.896	-2.232
	.590	-1.285	-1.875
	-3.937	-5.493	-1.556
	-1.014	-2.517	-1.503
WARNER	-4.921	-6.197	-1.276
UNICATIONS	7.260	6.051	-1.209
	2.826	1.712	-1.114

WINNERS

	TRADITIONAL EARNINGS 2001	S&P CORE EARNINGS 2001	RISE
	In Billions		
JDS UNIPHASE	-56.122	-24.790	+31.332
CORNING	-5.498	-2.848	+2.650
APPLIED MICRO CIRCUITS	-3.606	-1.590	+2.016
EL PASO	.067	1.422	+1.355
CHEVRONTXACO	3.931	4.977	+1.046
J.P. MORGAN CHASE	1.719	2.721	+1.002
SAFECO	-1.045	-.124	+0.921
CIENA	-1.794	-1.001	+0.793
AT&T	-6.842	-6.055	+0.787
AIG	5.499	6.086	+0.587

BIG GUNS AIM FOR CHANGE

More investors are taking action in a wide revolt against errant companies

BY EMILY THORNTON AND DAVID HENRY

As head of North Carolina's Crime Control & Public Safety Dept., Richard H. Moore led recovery efforts after two destructive winter storms and five hurricanes. But little had prepared him for the financial firestorm he faced after he became state treasurer in 2000, as executive greed torched trust in Corporate America and reduced one marquee company after another to ashes. The sole fiduciary of North Carolina's \$60 billion state pension fund began to grill money managers about how they looked after the interests of the 600,000 cops, teachers, and other state employees in the fund. And the more he learned about deceptive analysts, conflicted money managers, and self-serving corporate execs, the more alarmed he became.

Now, Moore is swinging into action. He's planning to refuse to deal with Wall Street firms that won't voluntarily adopt reforms like those imposed on Merrill Lynch & Co. as part of its \$100 million settlement with New York Attorney General Eliot Spitzer. "I'm not trying to supersede anything Congress does," says Moore. "I'm just a consumer in the marketplace, and I happen to be a large consumer."

Score one for Adam Smith and the power of the market. With Congress gridlocked on reform legislation and business leaders hostile to a major overhaul of corporate governance, institutional investors such as Moore are the last line of defense. They have the firepower: Pension and mutual funds have nearly \$8 trillion riding on the stock market today, a

massive 65% of its value, vs. 51% in 1990. All they need is the will to use it. And a growing army of state and private pension funds, mutual funds, hedge funds, foundations, and labor unions is outraged enough to do so. "What's going on now is the ugly, dirty side of capitalism," says Desmond J. Heathwood, CEO of Boston Partners Asset Management, a fund company with \$10 billion in assets. "We've got to clean it up."

Traditionally, institutional investors have voted with their feet—by selling off the stocks of companies they don't understand or whose managements they don't trust—beca



THE PROWL A group that includes Warren Buffett and John Bogle target S&P 500 companies on governance and compensation

leery of offending companies whose billions in pension (1(k) funds they manage. Dumping of shares still happens regularly, of course, and on occasion, it can turn into indiscriminate slaughter. Witness the hammering cable-TV stocks have taken since Adelphia Communications admitted in June that it had exaggerated subscriber numbers. But what's different this time is that mainstream money managers who once blanched at such a prospect are getting—and dirty—with company managements. Before, such were the preserve of longtime activists such as the California Public Employees' Retirement System (CalPERS) and AREF, the teachers' pension fund (page 132). And like trailblazers, the new activists are increasingly homing in on individual companies. They grill execs privately and in public, launch attacks through proxy contests on issues ranging from executive pay to the independence of board members, and even sue for fraud. "You can't [just] vote with your money," says Chris Davis, a third-generation money manager who oversees \$35 billion at the New York family investment firm Davis Selected Advisors. "We really have to work on changing the system."

Davis has been bearing down on blue-chips such as McDonald's, General Mills, and Time Warner Communications, arguing they're giving away far too much shareholder wealth through stock-option programs. But there's a limit to what meetings with directors, writing letters to management, and talking with CEOs—the tactics of activists and others use—can achieve. "When companies as conservative as SBC and General Mills become infected with poor practices, there is no place to run," he says. "We're going to have to go to the next step."

That step could turn into a

giant leap for institutional investors. Davis is putting together a group who together manage \$500 billion to \$1 trillion, or nearly 10% of the stock market. They will target companies in the Standard & Poor's 500-stock index on corporate-governance and executive-compensation issues. Warren E. Buffett, the legendary Omaha investor; Bill Miller, star manager of Legg Mason Value Trust Fund; and John C. Bogle, founder of the Vanguard Group and father of index investing, have signed up. This year, Miller refused to vote for management's slate of directors at credit-card giant MBNA Corp. because they repeatedly handed out new options to executives. And the giant Fidelity Investments mutual-fund family, though not an acknowledged member of the group, said on June 11 that it may deliver a similar public slap in the face to directors who approve overly generous executive-compensation plans.

Much more is at stake than the money and careers of the heavy hitters. Unless confidence returns, billions more will disappear from the stock market wealth of millions of investors, along with the livelihoods of tens of thousands of financial-industry employees. Businesses and innovators will face higher financing costs. And the ability of the U.S. to attract all of the foreign investment it needs will be seriously impaired. "It's troubling when you've got a recovering economy and a market that's going in the wrong direction," says Michael Carpenter, Chairman and CEO of Salomon Smith Barney.

Investors' disillusionment has also cast a pall on lucrative mergers and initial public offerings. So investment banks and brokerages have donned the mantle of reform. They are issuing more downgrades and embracing much tougher systems for rating companies in a scramble to prove to investors that they are not beholden to investment-banking clients. They're also urging companies to meet investors' new demands for clean balance sheets by divesting operations and getting rid of assorted minority investments.

The besieged bankers have a strong motivation: Their business won't start humming again until millions of betrayed investors flock back to the

Getting Tough

How Wall Street is leading the push for corporate reform

INSTITUTIONAL SHAREHOLDERS

► They're voting with the billions of dollars in their portfolios by dumping stocks of companies with complicated financials and shoddy executive oversight. Some complain directly to CEOs and directors. If that fails, they launch proxy fights. With so much money at stake, who can blame them?

THE MARKETS

► The New York Stock Exchange is tightening its listing standards to force corporations to be more accountable to shareholders. Nasdaq is also drafting new rules. With the SEC and investors around the world looking to them for leadership, they have to act. But neither wants to see trading dry up, either.

INVESTMENT BANKS

► They're scrambling to regain investors' trust by downgrading more stocks to "sell"—showing they can be critical of investment-banking clients. Major firms are also rolling out new stock-rating systems and restructuring analysts' pay to make it more heavily weighted to their stock picks. Some are directly urging corporate execs to clean up their acts. Unless investors regain confidence in Corporate America, bankers' brokerage and dealmaking business will dwindle.



NYSE Chairman Richard E. Smith, left, and ex-AOL Time Warner chief Gerald Levin, right.

stock market. "Our business is trust, and when that trust is impaired, any management of a responsible financial institution wants to change as fast as possible to restore it," says Philip J. Purcell, chairman and CEO of Morgan Stanley Dean Witter & Co. "I think you'll see financial companies move to standards well above what's being required by regulators, legislators, and industry organizations. If anything, the financial system has to overcorrect."

Certainly, the New York Stock Exchange and Nasdaq are on fast-forward. They are falling all over themselves to prove that they offer superior protection to long-term investors. The exchanges started issuing new corporate-governance rules—the first major overhaul in nearly five decades—after a request from Securities & Exchange Commission Chairman Harvey L. Pitt in February. But now, they're racing ahead of him. The NYSE wants company boards to have a majority of independent directors and to put options schemes to a shareholder vote. The Nasdaq is playing catch-up—and wants even more new rules. For example, it's proposing that directors whose charities receive large donations from their companies should be thrown off audit committees. Not to be outdone, the NYSE would have the SEC ban companies from issuing now-notorious pro forma earnings before they report their actual results according to generally accepted accounting principles (GAAP). "Some of the stuff in these plans is pretty bold. Under other circumstances, these changes would be impossible," says a senior SEC official.

Of course, if the stock market rebounds strongly, Wall Street's newfound enthusiasm for reform could fade rapidly. Moreover, while talking about new rules is easy, putting them into practice is a much tougher proposition. For now, ferocious lobbying—and generous campaign donations—by business and

accounting firms have stymied reform legislation in Congress.

Still, institutional investors have found a dramatic change on Wall Street in the past. In 1969, they blasted brokers for a massive debacle in handling paperwork that resulted in their trades not being processed for days or being lost entirely. Their fury eventually forced legislation that ended brokerage fixed commissions in 1975 and changed the face of Wall Street for good. At the time, their impact will be felt far beyond the financial-services industry. "This much more far-reaching crisis of confidence," says Manhattan College finance professor Charles R. Geisst and another of Wall Street histories.

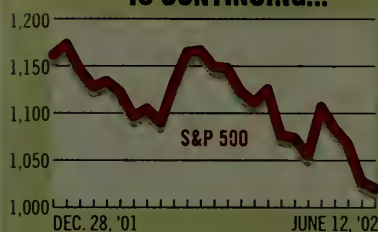
The nation's financial cops aren't about to give up easily, either. The SEC, the National Association of Securities Dealers, and state securities regulators all have active probes underway. The SEC is investigating the major Wall Street houses, and Spitzer has more firms in his sights. Even though Merrill has signed a settlement with Spitzer, that case may not be closed. Regulators in South Dakota and Missouri say they may refuse to sign on it—and at least two other states may join them. "My concern is that [the settlement] limits our ability to use our full arsenal of weapons to help Missouri investors," says Missouri Secretary of State Matt Blunt.

Labor unions are taking up the cause, too, using their vast pension funds as a big stick to beat up errant managers.

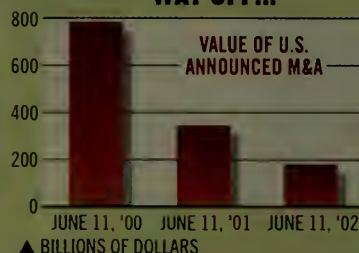
They're pummeling blue-chip companies such as Walt Disney, Johnson & Johnson, and Sara Lee to keep their executives from paying auditors for consulting work on the side. In January, Disney said it will no longer pay consulting fees to its auditor, PricewaterhouseCoopers, following pressure from the United Association of Plumbers & Pipefitters, which, along with

WHEN INVESTORS LOSE FAITH

THE MARKET SLUMP IS CONTINUING...



...DEALS ARE WAY OFF...



...AND BROKERAGE STOCKS ARE DOWN



Data: Thomson Financial, Bloomberg Financial Markets

BUSINESSWEEK/IPSOS-REID POLL

Investors Are Still Spooked

American investors remain pessimistic about the stock market, and only 4% are very confident of the accuracy of corporate earnings statements. But they're torn about what should be done. More than half doubt that corporations can reform themselves without new laws and regulations. Yet their trust in the ability of Congress and federal agencies to regulate corporate financial practices is even lower than their confidence in Arthur Andersen and other auditors.

EDITED BY
PETER COY

STANDING PAT ON STOCKS

Over the next six months, what will you probably do about investments in stocks or stock mutual funds?

	JUNE 7- JUNE 9, 2002	FEB. 11, 2002	NOV. 30- DEC. 3, 2001	NOV. 28- DEC. 4, 2000
Invest a lot or somewhat more	27%	29%	28%	42%
Reduce somewhat or a lot	18%	21%	24%	18%
Stay the same	53%	47%	42%	32%
Not sure	2%	4%	6%	7%

Survey of 671 investors. Interviews were conducted June 7-9, 2002, for *BusinessWeek* by Ipsos-Reid Public Affairs, Arlington, D.C. Results should be accurate within four percentage points. Results prior to Feb. 11, 2002, come from surveys conducted for *BusinessWeek* by Harris Interactive Inc.

NEW RULE? The NYSE wants companies to put all option schemes to a shareholder vote. Nasdaq is considering a similar requirement

Construction unions, controls a \$215 billion pension fund. On resolutions at shareholder meetings are getting more support from other institutional investors, winning 10 to 15 percentage points more of the vote this year than last, says Ron Silvers, associate general counsel at the AFL-CIO's office of investment. Sometimes, the mere threat of a vote is enough to do the trick. The AFL-CIO withdrew shareholder resolutions it had filed after Goldman Sachs, Merrill, and Morgan Chase all agreed to break the links between the support of their research analysts and the amount of investment-banking business they help generate.

But it's hedge funds that are fast becoming the true attack force of the new shareholder activism. Their goal is simple: to check shareholder value. At ICN Pharmaceuticals Inc.'s annual meeting on May 29, David L. Cohen, who runs Iridian Asset Management, an \$11 billion hedge fund in Westport, Conn., along with David Winters of Franklin Mutual Advisers in Fort Hills, N.J., staged a proxy fight. They wanted to win enough board seats to oust controversial Chairman Milan Milutinovic. With the duo winning by better than a 3-to-1 margin, Milutinovic announced on June 12 that he will retire at the end of the month.

Even growth investors are rolling up their sleeves in an attempt to whip companies into shape. Thomas F. Marsico, president and portfolio manager of Denver's Marsico Capital Management, which manages \$12 billion, has been calling for writing executives, including Cisco Systems Inc.'s John T. Chambers, pushing them to pay higher dividends and lighten up on their use of stock options. He wants companies to use dividends to prove their earnings are real. Marsico says when he tells execs that their earnings are tainted because of creative accounting, the companies shoot back that they are following GAAP. "Well, fine, but it's not acceptable to me, and I'm going to pay for those earnings," he says.

Growing numbers of investors seem to agree—and they are selling down the stocks of some of America's biggest companies. Money manager Bridgewater Associates has created an index of 20 big companies whose books are littered with

serial takeovers that breed opportunities for earnings games. That index of suspect stocks is down 31% this year, compared with an 11% loss for the S&P 500. Tyco International, for example, which made more than 139 announced deals and has acknowledged hundreds more, is down 83% this year. In contrast, United Technologies, a conglomerate with a less rapacious appetite for acquisitions, is up 8%. "Wall Street wants simple stories and consistent results," says Louis Navellier, whose Navellier & Associates Inc. in Reno, Nev., manages \$5 billion.

If proxy contests are a reliable measure, the new activism is here to stay. Shareholders are voting against management in record numbers. They have won majorities on issues ranging from executives' golden parachutes to poison pills 76 times so far this year, vs. about 70 for all of last year, says Patrick McGurn, vice-president at Institutional Shareholder Services. "It's [like] Barry Bonds hitting 90 home runs this year. It is setting a new standard," he says.

As a result, companies that once could fend off with ease changes execs didn't like are now in retreat. At Bank of America, for example, a shareholder resolution to slash golden-parachute provisions for departing executives grabbed 50.7% of the votes cast, compared with 40.7% last year. And governance issues such as executive compensation and corporate integrity are now resonating among a surprisingly wide audience. Says Charles M. Elson, director of the Center for Corporate Governance at the University of Delaware, "My dean has come around five times with different proxies to ask my advice. He didn't do this before."

Public contempt for corporate misbehavior runs deep—especially as the market stumbles. Investors are mad as hell—and they're not going to take it any more. They're also not willing to wait. Not for Congress, not for snail-paced accounting-standard setters. And above all, not for CEOs who still don't get it.

With Mara Der Hovanesian and Marcia Vickers in New York, Geoffrey Smith in Boston, and Mike McNamee and Amy Borrus in Washington

DO YOU TRUST?

How much confidence do you have...

	A GREAT DEAL OR ONLY SOME	HARDLY ANY OR NONE AT ALL	NOT SURE
Whether the stock market treats individual investors fairly			
June 7-9, 2002	74%	23%	3%
Feb. 11, 2002	80%	17%	3%
Whether companies are running big business			
June 7-9, 2002	78%	20%	2%
Feb. 11, 2002	75%	23%	2%
Whether companies are running big auditing companies such as Arthur Andersen			
June 7-9, 2002	56%	40%	4%
Feb. 11, 2002	59%	36%	5%
Whether the ability of Congress to write effective rules governing corporate financial practices			
June 7-9, 2002	51%	48%	1%
Feb. 11, 2002	56%	44%	0%

In the ability of federal government agencies to regulate corporate financial practices

June 7-9, 2002	53%	46%	1%
Feb. 11, 2002	55%	44%	0%

SKEPTICAL ABOUT EARNINGS NUMBERS

How confident are you that corporations accurately report how much money they make?

Very confident	4%
Somewhat confident	44%
Not too confident	35%
Not at all confident	17%

DIVIDED ON REGULATION

Do you agree or disagree that corporations can reform themselves without new laws and regulations?

Strongly agree	19%
Only somewhat agree	28%
Only somewhat disagree	25%
Strongly disagree	27%

A close-up photograph of a human hand holding a clam shell. The hand is positioned palm-up, with the clam shell resting in the center. The background is dark and out of focus, with some light reflecting off the clam's surface. The text "1° of separation between inspiration" is overlaid on the image.

1° of separation between inspiration

When software lets you quickly turn new ideas into new products, that's business with Microsoft. Making sure the right information gets to the right place at the right time means employees will have the data needed to quickly implement their inspirations. .NET connected software for

Pfizer wanted to get products out the door faster. Using .NET connected software, they built an application that seamlessly links employees together, so pharmaceutical products move through the manufacturing process more quickly. The result? Improved productivity and faster and more responsive customer service.



d creation.

Microsoft breaks down the barriers in business and lets information flow freely between employees, teams, and devices. It's the key to improving collaboration and productivity so you can bring products to market faster. That's one degree of separation. That's business with .NET. Find out how .NET connected software can help employees realize their ideas.

microsoft.com/enterprise Software for the Agile Business.

Microsoft

VOLCKER ON THE CRISIS OF FAITH

Lots of people talk about the need for corporate reform. Paul A. Volcker tried to make it happen. For months this spring, the former Federal Reserve Board chairman headed an oversight board that struggled to rescue Arthur Andersen LLP by turning the embattled accountancy into a model auditing-only firm. That experience left Volcker with mixed feelings about Corporate America's interest in cleaning up after the wave of current scandals, as he explains in an interview with Washington Senior Correspondent Mike McNamee.

When you were working to reform Andersen, where were Corporate America's CEOs? Were they behind you—or way behind you?

Well, I didn't see anybody out in front of me.

I received a lot of expressions of sympathy. But Corporate America was not there in any organized way. [CEOs] privately told me they were sympathetic—but basically they wanted to be quiet. Why would they get out in front? It was not in their short-term best interest. We thought the best way to get reform was to prove that it was possible.

You've said that the current state of accounting and business poses "a clear and present danger to the effectiveness and efficiency of capital markets." What is that risk?

Enron and Andersen are the extreme example. But we have seen a lot of other examples of corporate practices that the most kind thing you can say is they stretched the envelope—stretched it all too often beyond recognition. Auditors have not been able or willing to exercise discipline in an environment that's extremely difficult. Accounting standards themselves have not kept up with business practices. And the stock market boom created enormous wealth and enormous pressure to manage earnings and keep up the growth. These all led to pressures that were inconsistent with executives' and auditors' responsibilities.

People now don't have faith and reasonable confidence in financial reporting. That affects the flow of capital, and ultimately it could affect the amount of capital that's available to business. In a capitalist system, that's not good.

Do you see any signs that Corporate America is changing?

I am sure there's a lot of new thinking within boards, audit committees and among executives. My friends who on boards tell me they are much more sensitive to accounting issues. It's gotten tough for an auditing company to do large-scale consulting for the firms they audit. This is all welcome. The trouble is, I'm not sure how long it will last.

What changes should be imposed in boardrooms?

Well, there's the [Treasury Secretary] Paul O'Neill view things—that the major way to improve matters, more important than supervision and regulation or preaching ethics, is putting real responsibility on the shoulders of the executives. Have him sign the financial statements. If the statements prove to be a fraud, he bears the responsibility. It is a statement that I respect. CEOs are being paid to be responsible.

What about expensing stock options?

Stock options have been abused, no matter how they are accounted for. The executives I've talked to say, "I think it's wrong to expense options if everybody else is doing it. But everybody has to [expense them], that's fine." Of course, these aren't high-tech or biotech financial companies—more mainstream industrial companies.

Are there other ways to improve corporate governance?

I know this really makes popular with Corporate America, but I think every public company should separate the job of chairman, should have a nonexecutive chairman of the board. I've seen it work well in many other countries. At the very least, companies

should have a strong lead director, but that's not an adequate substitute for a nonexecutive chairman.

Corporate responsibility is mainly a matter of attitudes and the attitudes got corrupted by the mentality in the stock markets in the 1990s. We went from "greed is good" being said as a joke to people thinking that "greed is good" was a fundamental fact.

Can those attitudes change, or do we have to wait for a new generation? Can you teach an old CEO new tricks?

Well, they taught themselves new tricks on how to maximize their incomes. That didn't take too long.



“Corporate responsibility is mainly a matter of attitudes, and the attitudes got corrupted...in the 1990s”

—PAUL A. VOLCKER

The automotive equivalent
of a really hot librarian.



Good-looking, yet intelligent. Fun, yet sophisticated. All in a very eye-catching 200-horsepower package.

The Accord V-6 Coupe.  **HONDA**

COMMENTARY

By Rich Miller

WHAT'S CRIPPLING CAPITAL SPENDING?

A revival of capital spending: It's what practically all forecasters are counting on to carry the economy forward in the second half of the year. Indeed, economists at the White House, the Federal Reserve, and across the country say a pickup in business outlays is needed if growth is to strengthen. Sure, the economy is recovering from last year's recession, but so far most of the oomph is coming from a turn in the inventory cycle. With free-spending consumers finally showing signs of slowing down and the housing market looking frothy, economists say Corporate America must boost outlays to keep the economy purring in the second half.

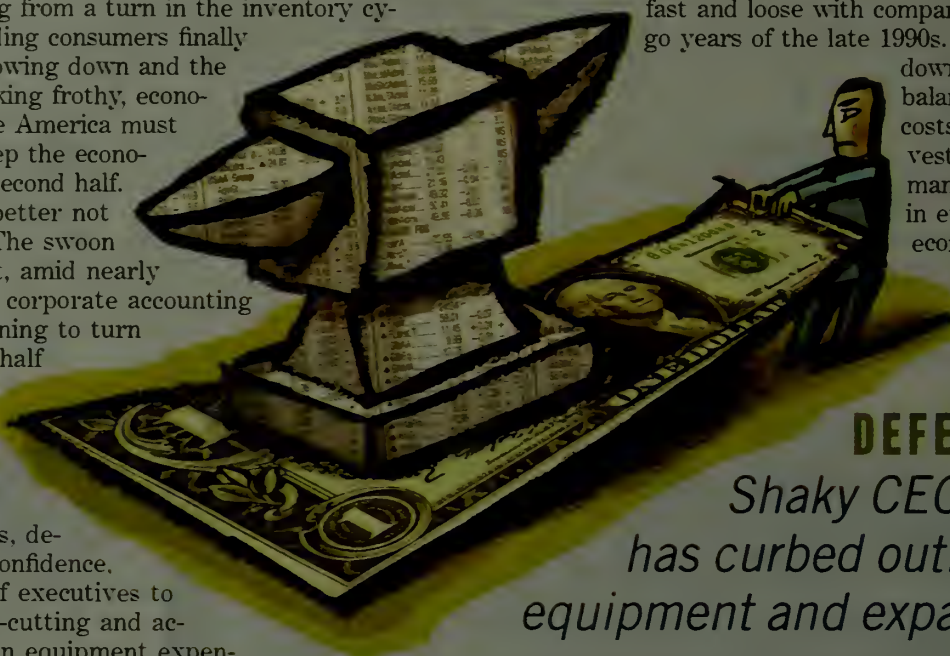
But economists better not hold their breath. The swoon in the stock market, amid nearly daily revelations of corporate accounting scandals, is threatening to turn hopes for a second-half revival of capital spending into a mirage. The market decline is raising the cost of capital to companies, depressing business confidence, and prompting chief executives to concentrate on cost-cutting and accounting rather than equipment expenditure and expansion. "The stock slump is putting corporate management on the defensive," says John Lonski, chief economist at debt-rating agency Moody's Investors Service. The result: The economy could end up expanding far more slowly in the second half than at the 3.5% pace many forecasters expect.

Even before the slide in stocks, expectations for a pronounced increase in capital-goods spending in the second half were looking iffy. Yes, new orders for capital goods—everything from heavy trucks to PCs—picked up in April. But actual shipments fell, and order backlogs declined, suggesting that companies were canceling old orders faster than they were placing new ones. What's more, a weekly survey of old-line capital-equipment producers by consultants International Strategy & Investment Inc. found that their business tailed off sharply at the end of May and into June, to their lowest levels since last November.

Now there's a real risk that Wall Street's woes could turn what was shaping up as a bad situation into something worse. How so? In part, because the stock slump is affecting business confidence by hitting CEOs where it hurts most: in the pocketbook. Stock options now account for 80% of executive compensation. By *BusinessWeek's* calculations, the average CEO lost an astound-

ing \$15.4 million in pay-related wealth last year, thanks to the steep drop in the market in 2001. With share prices eroding this year, the hit to corporate honchos is only getting worse. "That feeds directly into CEO confidence," says Goldman, Sachs & Co. chief economist William C. Dudley.

It's not just lower stock prices that are shaking confidence. Business leaders are under attack as never before for playing fast and loose with company books during the boom years of the late 1990s. So they're hunkering down, rebuilding battered balance sheets, and cutting costs in a bid to regain investor trust. And with many industries still awash in excess capacity and the economic outlook so uncertain, CEOs see little reason to rush ahead with plans to boost spending and expansion.



DEFENSIVE

Shaky CEO confidence has curbed outlays for equipment and expansion

capacity. "Capital spending is constrained," IBM CEO Samuel Palmisano told analysts on May 15. "Everyone is driving towards consolidation and savings." And spending on software is no better than hardware. "It certainly is every bit as challenging, if not even somewhat tougher, than it was in Q1," Kenneth A. Goldman, CFO of software maker Siebel Systems Inc., told a Bear, Stearns & Co. conference on June 11.

So could the downbeat mood sour the economy in the second half? That prospect clearly worries President Bush's chief economic adviser, Lawrence B. Lindsey. He sees a risk that corporate chieftains and investors will overreact to the

excesses of the late '90s and pull back too far. "When the excesses were happening, people might have been more skeptical," Lindsey says. "But now there may be excessive risk aversion."

There may be good reason to expect an eventual pickup in capital spending. Profits and cash flow are reviving, and productivity has stayed strong. But as long as gloomy CEOs remain under a cloud, the risk increases that the revival of spending will occur later and come in weaker than generally hoped. And that could translate into sputtering growth in the second half.

Miller covers the economy and Fed policy from Washington.

LITTLE TURN IN SIGHT



*SEASONALLY ADJUSTED NONDEFENSE CAPITAL GOODS SHIPMENTS EXCLUDING AIRCRAFT AND SEMICONDUCTORS
Data: Census Bureau

UNG DIGITAL
one's invited

The flat out clear choice.

WiseView™ at any angle.



Now you can get distortion free viewing 1.8" to 40" displays with outstanding clear resolution. The choice is clear. The choice is WiseView digital displays by Samsung.

WiseView technology that's ahead of its time. Every TFT-LCD visual display on a cell phone, notebook, monitor, PDA, LCD TV or game with the WiseView

logo has the reliability, clarity and quality that you can expect from Samsung.

WiseView from Samsung. When you're looking for the perfect view, look for the WiseView logo. It's flat out the clear choice.

For more information, visit us at
www.samsungTFTLCD.com.



EXAM0001

TFT-M0001

PDA 0001

LCD TV

SAMSUNG
ELECTRONICS

WiseView is a trademark owned by Samsung Electronics Co., Ltd.



SUPPLIER SPEND SPIRALING OUT OF CONTROL? NOT ON OUR WATCH.

Introducing PeopleSoft Supplier Relationship Management. The only solution to manage all of your enterprise spend in real-time.

PeopleSoft SRM enables you to proactively control all of your enterprise spend—from direct goods to indirect goods to capital assets to services. And because you are connected to all of your suppliers over the Web, you can manage it all in real-time, and always act before it's too late.

Learn more by visiting us at www.peoplesoft.com/srm or call 1-888-773-8277.

Customer Relationship
Management

Supplier Relationship
Management

Financial Management
Solutions

Human Capital
Management

Application
Infrastructure

PeopleSoft

© 2001 PeopleSoft, Inc. PeopleSoft is a registered trademark of PeopleSoft, Inc.

ECOM

ILL WORLD COM SCONNECT MCI?

ale would bring much-needed cash. But buyers may be scarce

fter just a month on the job, WorldCom CEO John W. Sidgmore is moving fast to fix the troubled telecommunications giant. At the end of June, he is expected to announce a major restructuring of the nation's No.2 long-distance carrier. He plans to sell off WorldCom's \$5 billion wireless-resale business and cut capital spending by another \$1 billion. From \$8 billion in 2001, it will now be \$3.5 billion. Up to 20% of employees—or 20% of Jackson (Miss.) company's workforce—will be let go. He is close to clinching a \$5 billion line of bank credit, which would keep WorldCom out of a liquidity crisis for the next 18 months. But Sidgmore might have even bigger play in the cards. He hopes to sell WorldCom's perpetually struggling MCI long-distance business, dismantling a chunk of the telecom empire that ousted CEO and founder Richard J. Ebbers built over the past 30 years, says a WorldCom insider and one com exec who was approached about buying the unit. "It's not a matter of if WorldCom will sell MCI, but when and for how much," Farooq Hussain, a partner in Washington (D.C.) consultancy Network Conceptions LLC. Certainly, an MCI sale would ease WorldCom's woes. It could raise several billion dollars in cash and dump a losing business that has pulled WorldCom's stock below \$2 a share. But MCI's debt and withering prospects—not to mention the onerous sale conditions that Sidgmore is imposing—a deal is far from certain. Says Friedman, Kings, Ramsey Group Inc. analyst Susan Kalla: "MCI has great value, but the timing couldn't be worse." Indeed, finding a buyer

won't be easy. Currently, Morgan Stanley Dean Witter & Co. is trying to hook a deal. Independent carrier IDT Corp. and Baby Bell SBC Communications Inc. have both taken a look at MCI, sources say. For now, WorldCom CFO Scott Sullivan denies that MCI is being sold, but one company insider says that's only because no one has made an offer. Sidgmore won't comment on the possible sale.



MCI'S HEAVY BAGGAGE

Slumping Sales MCI's revenue fell 15% in 2001, to \$13.8 billion, with a slide to \$11 billion this year

Serious Debt A hefty \$6 billion in long-term debt is scaring away potential buyers such as the Baby Bells

Shrinking Margins Long-distance price wars have squeezed MCI's margins to just 11%—well below the 27% that WorldCom's other businesses earn

Why the push for a deal? For starters, dumping MCI would help WorldCom pay down some of the \$30 billion it owes and would strip MCI's \$6 billion in debt from its books. Plus, it would shed MCI's slumping long-distance business, where revenues fell 15% last year and could sink another 20%, to \$11 billion, this year. That would allow the company to focus on growth areas such as Web hosting, virtual-private networks, and Internet access.

Despite its difficulties, though, MCI has some allure. Analysts say Baby Bells SBC, Verizon, and BellSouth would benefit from MCI's market share and brand name. By carrying MCI's traffic on their networks, they could trim its workforce up to 40%. "The Bells could change the whole cost model of MCI, making it immediately profitable," Kalla says.

MCI's network could also boost the Bells. It is seen as among the most advanced in the world, capable of providing digital services such as Web hosting and virtual-private networks, which are most in demand by big companies. The Bells are weak in those areas.

There's a catch: Sidgmore only wants to sell access to MCI's customers. He hopes to hang on to MCI's network in order to use it to sell Web and networking services to corporate buyers. He also plans to lease some of the network's long-distance capacity to the firm that acquires MCI's customers, thereby allowing WorldCom to keep the \$1.5 billion in quarterly revenue that it gets from consumer long-distance.

But that's not a deal the Bells are interested in. Nor do they relish the prospect of taking over MCI's problems. Some telecom execs think that MCI will sell even cheaper if they wait and struggling WorldCom slips toward bankruptcy. Says Jefferies & Co. analyst Richard Klugman: "The Bells feel no sense of urgency in buying MCI." While most figure that Sidgmore will eventually find a buyer, chances are he won't get the price—or the conditions—that he's asking for.

By Charles Haddad in Atlanta, with Peter Elstrom in New York

AIRLINES

AMERICAN DRAWS A BEAD ON JETBLUE

The giant is aiming to check the upstart's expansion

Since its first plane took off from New York's John F. Kennedy International Airport for Florida in February, 2000, JetBlue Airways Corp. has pretty much flown below the radar of the major carriers. No more. In two years, JetBlue has turned JFK, which serves largely as an international gateway for other airlines, into its domestic hub, with flights to 17 U.S. cities. Now, the discount airline is going bicoastal, quickly expanding in metro Los Angeles to create a West Coast base. By doing so, JetBlue has made itself a target for its more established rivals.

Will JetBlue become the latest in a long line of startups to overreach? Clearly, American Airlines Inc. is gunning for it. On June 15, the world's biggest airline will go head-to-head with JetBlue by flying nonstop from JFK to Long Beach, Calif., JetBlue's West Coast hub. American is also pushing Long Beach authorities to revoke some of JetBlue's unused landing rights and award them instead to American so that it can add more flights.

Executives at the carrier, a unit of AMR Corp., insist they are merely responding to a competitive threat by hiking service at Long Beach. And for now, they are leaving JetBlue alone on the bulk of its routes. But David G. Neeleman, JetBlue's founder and CEO, can't afford to relax. American has a long history of taking on the little guys when they threaten its key markets. And if they chose to wage all-out war, there's little doubt American could cripple JetBlue.

Yet Neeleman has some advantages in this fight that other startups haven't had. For one, American isn't the mighty carrier it once was. Although it had \$2.3 billion in cash as of Mar. 31, American has been losing more money since the September 11 terrorist at-



tacks than any other airline and can ill afford a fight that will deepen its losses.

Just as important, JetBlue isn't just another People Express, the popular discount carrier from the early days of deregulation that borrowed heavily, overexpanded, and ultimately went bust. Unlike most previous airline startups, New York-based JetBlue has a tidy bankroll. Its original investors include financier George Soros, and its initial public offering in April was the hottest in a year. At last count, Neeleman says, the company had \$275 million in cash reserves, and its \$2 billion market cap—at least for now—is as big as the value of UAL, Northwest Airlines, and US Airways Group combined. Equally impressive, JetBlue has made money since the start of 2001, when the industry as a whole slipped into the red. The carrier has earned a loyal base of customers who rave about its new planes, 24 channels of live satellite TV, leather seats, and low prices.

Moreover, Neeleman is no wild flyboy. A disciplined manager with a financial bent, Neeleman first showed his stuff at discount carrier Morris Air Corp. The Utah-based airline grew big and profitable enough that it became an easy fit with Southwest Airlines Co., which snatched it up in

1993. Like Morris, **DOGFIGHT IN LONG BEACH:** A battle over landing rights.

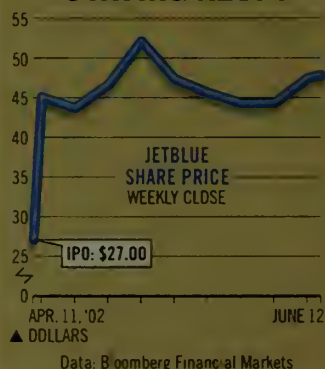
west, with turnaround times so fast and costs so low that it can make money at fares that would bleed American. And like Southwest, Neeleman's airline flies primarily to airports ignored by the majors, making it harder for them to punish JetBlue in a fare war. "They're obviously predatory individuals at American," says Neeleman, "but we're doing fine."

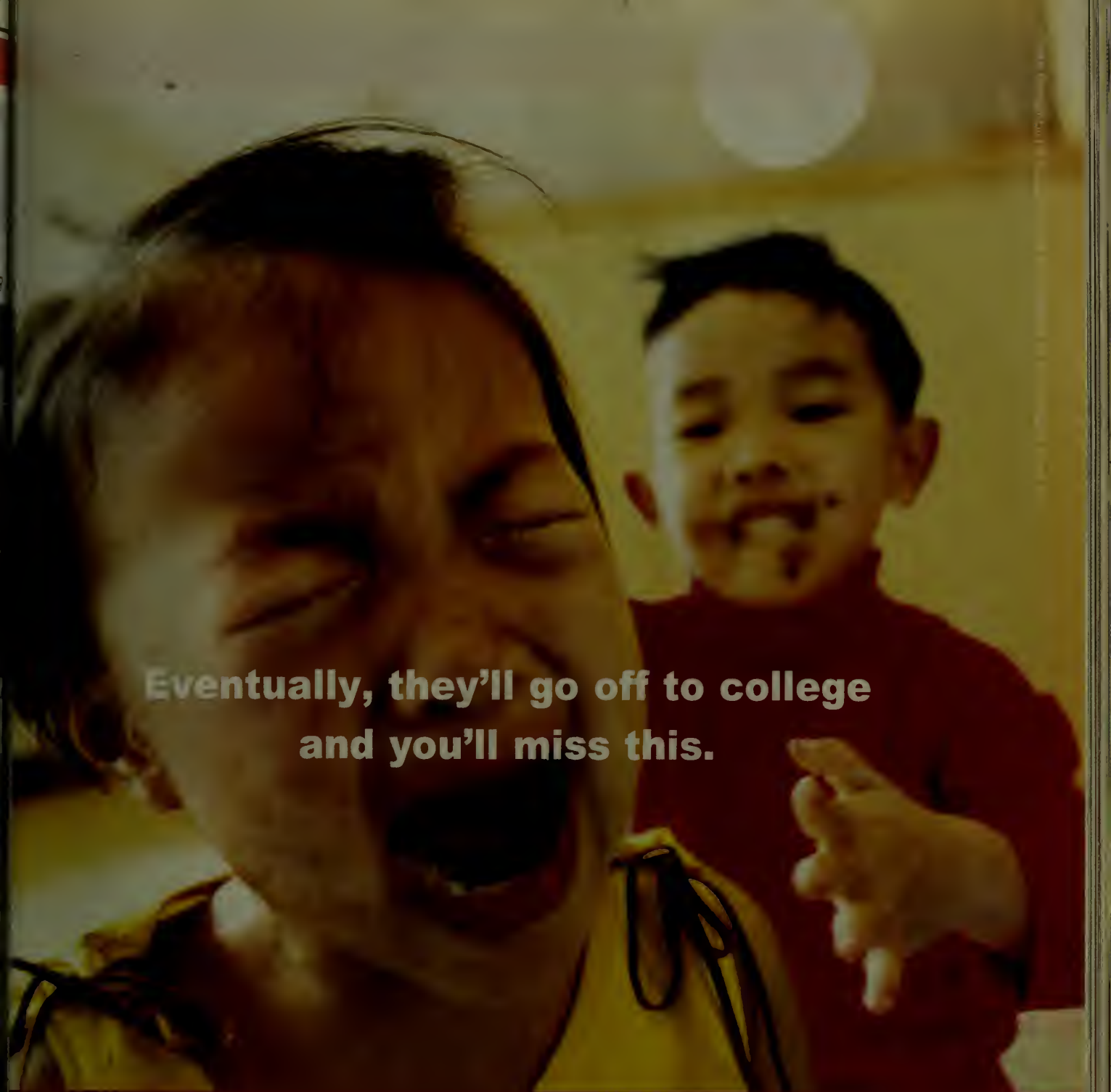
He shouldn't kid himself, though. American may yet escalate its fight, and if it does, the pain could be deep on both sides. Already, it is demanding that Long Beach authorities take back some of JetBlue's slots or lift the limit on round trips at the airport from four a day. JetBlue quietly grabbed the right to every available slot last year while its rivals weren't looking. It's unlikely that Long Beach will side with American, but if it does, JetBlue's expansion plans would suffer while giving American more opportunities to pummel JetBlue.

To strengthen JetBlue's case, Neeleman has sped up its expansion, replacing new aircraft to add flights to Las Vegas, Salt Lake City, and Oakland, Calif. Neeleman knows the risks are high. Still, every so often a discount carrier survives. And if it continues to outfox American in California, JetBlue could be flying alongside the big guys for quite some time.

By Michael Arndt in Chicago, and Wendy Zellner in Dallas

STAYING ALOFT





**Eventually, they'll go off to college
and you'll miss this.**

FINANCIAL PLANNING When you're a parent, the future comes in two speeds. One minute you think it will never get here. The next it's arriving before you're ready for it. Today, your MetLife Financial Advisor stands ready to help you plan ahead, and secure your financial freedom. Because the future is what it's all about.

Have you met life today?SM

metlife.com

MetLife[®] 
Financial Services

COMMENTARY

By Richard S. Dunham

THE SUPERAGENCY: A GOOD START, BUT...

In a June 6 address to the nation, President George W. Bush announced the most sweeping government reorganization since President Harry S. Truman created the Defense Dept., the CIA, and the National Security Council in 1947. His ambitious goal: to create a department whose sole mission is to make the U.S. safe from terrorists. "Employees of this new agency will come to work every morning knowing their most important job is to protect their fellow citizens," Bush proclaimed.

Certainly, no one would argue with improving anti-terrorism efforts, particularly after weeks of revelations of pre-September 11 intelligence failures. But the President's statement must have come as a shock to a lot of the workers slated to move to the proposed Homeland Security Dept. Sure, many of them will protect borders, prepare for disasters, and analyze intelligence reports. But thousands of others will be collecting customs duties on imported toys, setting standards for treatment of circus animals, and overseeing astrophysics research.

There's a better way. The department should be smaller and more focused. But the President also needs to realize there's much more to homeland security than a new agency. He must improve coordination between Cabinet departments involved in anti-terrorism. And the current plan isn't a substitute for addressing the intelligence shortcomings of the FBI and the CIA. Bush's blueprint "is a good first try," says American University political scientist James A. Thurber. "But they need to force [existing agencies] to communicate and trust each other."

That's a tall order. And it'll take sustained Presidential pressure

to pull off. A few suggestions:

■ **Focus on the mission at hand.** By swallowing 22 agencies and programs and inheriting 170,000 employees, the proposed department is just too unwieldy. The \$37 billion-a-

limited to analyzing intelligence rather than independently gathering it. The Homeland Security Secretary will not be entitled to raw intelligence reports of other agencies just analysis summaries.

That's a major drawback. Espionage experts say the limits are bound to create intelligence lapses down the road. Ivo H. Daalder, a national security analyst at the Brookings Institution, says the failure to share raw data "make no sense. You cannot connect the dots by analyzing analysis and not data." One solution: Require the other intelligence agencies to open their files to the new department.

A more fundamental question is what to do with the FBI. Rather than shifting the bureau's ingrained law-enforcement culture to a terror-prevention approach, it makes more sense to spin off the terrorism duties to a new agency. One model: Britain's highly successful MI5 domestic security unit.

AT THE BORDER

Ridge rallies his troops. Their numbers are getting unwieldy

year behemoth must be streamlined to concentrate on its anti-terrorism issue.

"There needs to be a judicious untangling of functions that do not bear at all on homeland security," says Will Marshall, president of the centrist Progressive Policy Institute.

A logical place to start is the Customs Service. While its border-security role fits the new agency, its money-collection duties should stay in the Treasury Dept. Likewise, the Coast Guard's boating-safety programs, oil-slick cleanup, and boat fees belong in the Transportation Dept. Says a top GOP Hill aide: "Do you want Tom Ridge investing hours of time approving fee schedules?"

■ **Fix intelligence problems.** In trying to keep the new department from becoming too sprawling, Bush sidestepped a crucial issue: how to fix the two agencies at the core of the problem, the FBI and the CIA. What's more, the President concluded that the new agency should be

■ **Force agencies to cooperate.** The Pentagon needs an assistant secretary for homeland security, as recommended by ex-Senators Warren Rudman (R-N.H.) and Gary Hart (D-Colo.) to coordinate with the new agency. State, Justice, and Transportation also should name high-level liaisons. Says Hart: "The President's job is to make them communicate."

Some worry that Congress may make the situation worse. "This could get tweaked to death," says Representative Mac Thornberry (R-Tex.). Still, a few tweaks could turn a well-meaning but flawed idea into the agency Bush envisions.

With Paul Magnusson and Lorraine Woellert in Washington



EDITED BY MONICA ROMAN

BERTELSMANN TRIES DIFFERENT TUNE

GERMAN MEDIA GIANT Bertelsmann didn't win much respect for investing in the defunct music file-sharing service Napster, but it may have redeemed itself by topping up one of the best independent record labels. On June 11, Bertelsmann's BMG Entertainment, the world's fifth-largest music company, announced it was buying Zomba. The label, majority-owned by Clive Davis, is home to artists as diverse as Britney Spears, and the Notorious B.I.G. The price tag? An estimated \$3 billion. Now all Bertelsmann needs is a revival in the worldwide music market.

INSTINET: A BILLION-DOLLAR DEBUT

INSTINET CORP. OF CANADA, known in the U.S. for its First Call earnings data,

CLOSING BELL

PRICE CHECK

A few shares plunged 2.2%, to \$31.76, on June 12, after the grocery chain said second-quarter earnings would be as much as 8% below earlier forecasts. Safeway also said it would close as many as 14 of its 1,782 stores and charge a second-quarter charge of at least \$60 million to cover closings and other costs.



Source: Bloomberg Financial Markets

received a cool reception from investors on June 12 for its first U.S. stock offering. The company, already traded in Toronto, managed to sell only 32 million shares, down from the 38 million it intended to offer just a month ago. But it still raised \$1 billion, leaving Thomson CEO Richard Harrington "quite pleased." The shares, priced at \$31.20, fell 1%, to close at \$30.90 in their first day of trading on the New York Stock Exchange. Nearly half of the shares belonged to the Thomson family, which still owns 68% of the company. Harrington sought the U.S. listing to raise the profile of the legal and financial publisher.

IF YOU CAN'T LICK 'EM, BUY 'EM

AFTER STRUGGLING WITH increased competition, electronic trading company Instinet Group bought archrival Island ECN for \$508 million in stock on June 10. The combined entity will be the largest electronic market trading Nasdaq shares, with 25% of total Nasdaq volume. It also will be well positioned to fight Nasdaq's upgraded electronic trading system, called SuperMontage, set to launch in July. Island's low-cost strategy helped it establish a lead among alternative electronic markets that trade Nasdaq shares. Instinet, owned by Reuters, had to slash prices earlier this year, leading to a first-quarter loss and the resignation of CEO Douglas Atkins soon thereafter. Island Chairman Ed Nicoll will become Instinet's new CEO.

THE TAXMAN FINGERS GLAXO

BRITISH DRUG GIANT GLAXO-SmithKline may face a protracted, multibillion-dollar legal battle in the U.S. The Internal Revenue Service al-

HEADLINER: MILES WHITE

NOTHING BUT HEADACHES

ABBOTT LABORATORIES Chairman and Chief Executive Officer Miles White is on the hot seat. On June 11, the health-care company announced that it was lowering its earnings guidance for 2002 by 7.5%. The news sent Abbott's stock down 18.9% over the course of two days. The main problems: continued manufacturing headaches with a diagnostics plant that the Food & Drug Administration shut down in 1999 and weaker than expected sales of the diet drug Meridia.

The bad news comes as the 47-year-old White continues to struggle to revive



the company. Analysts say that for years, the drug-maker underinvested in research and development, a factor that has resulted in an alarmingly thin pipeline of new products. White has upped research spending and made a series of acquisitions aimed at filling that gap. But the company has failed to convince Wall Street that it is on the right track, particularly regarding its long-standing manufacturing woes. White calls the latest news "a short-term setback" that doesn't affect Abbott's strong underlying fundamentals.

Amy Barrett

legues that Glaxo intentionally underreported the money it made from U.S. drug sales, including blockbuster ulcer treatment Zantac. Glaxo has not been charged, but the IRS claims the company's U.S. division overpaid its British parent for drugs in order to artificially lower its U.S. profits and cut its tax bill. Glaxo maintains it fairly reported U.S. profits. Britain's Inland Revenue Service agrees, saying that Glaxo's profit has already been taxed in Britain and any IRS attempts to recover alleged back taxes would amount to double taxation.

GENENTECH IS ORDERED TO SHARE

ON JUNE 10, A LOS ANGELES jury ordered that biotech giant Genentech give \$300 million in unpaid royalties to City of Hope, a Duarte (Calif.) cancer center. The

dispute revolved around a patented method for making protein-based drugs that City of Hope developed and licensed to Genentech. The jury ruled that Genentech violated the agreement by licensing the patented technology to others without properly sharing royalties with City of Hope. The fine won't be a burden to Genentech—which has \$1 billion in cash—but punitive damages, resulting from the jury's ruling that Genentech acted with malice or fraud, could be steep.

ET CETERA...

- Procter & Gamble expects fourth-quarter earnings to grow in the high teens.
- One-year returns for venture capital sank 27.8% in the last quarter of 2001.
- The Chicago Mercantile Exchange filed for an IPO, the first U.S. exchange to do so.

SINGAPORE

THE INSIDER

Can Ho Ching fix Singapore Inc.?

To observers of Singapore politics and business, Temasek Holdings Ltd. has long represented everything that's right, and wrong, about the prosperous city-state. The government controls Temasek, which in turn controls some 40 companies, from shipbuilders to banks to chipmakers. Honest bureaucrats toil at Temasek companies, doing their best for Singapore Inc. But the state's heavy hand stifles entrepreneurial drive and prevents much-needed restructuring. Critics have long said that what Temasek needs is a new boss who'll shake things up, break the mold, and push Singapore out of its slump.

Well, Temasek has its new boss—but to cynics, the choice is a classic case of Singapore patronage. On May 1, 49-year-old Ho Ching was named executive director of Temasek Holdings. Ho, now responsible for the biggest corporate remake in Singapore history, is the daughter-in-law of Senior Minister Lee Kuan Yew and the wife of his son, Finance Minister Lee Hsien Loong.

CHARTERED SEMI: Studying a chip image in the lab

It's no surprise that critics wonder if Ho is right for the

job. While she would not comment for this article, other members of the Singapore elite acknowledge that her appointment is a public-relations issue. "It is awkward. We know that," Prime Minister Goh Chok Tong told *BusinessWeek* on May 29. "There is some conflict of interest, but you know, we work for the larger good."

Strange as it may sound, an appointment that looks like nepotism might make sense. Ho Ching's defenders say her marriage to Finance Minister Lee means she has the clout to prevail. The Stanford-educated Ho also has long experience in the state-led sector. For nearly five years, she ran Singapore Technologies Ltd., a defense contractor that is 100% owned by Temasek and makes everything from computer chips to rifles. For the most part, her stewardship of ST was praised. "I got her not because of her political connections," says Temasek Chairman S. Dhanabalan, the man who hired Ho for her new position, "but because of her competence and record."

In fact, thanks to those political connections, Ho almost didn't get the job.

When Dhanabalan first offered her the post back in August, her husband, says Goh, made it clear that he was uncomfortable with the situation. After a while, Ho would have reported directly to him. So Temasek management was "reconstituted" to provide a "buffer" between Ho and Lee, says Goh. Meanwhile,

she stepped down as CEO of ST so she wouldn't report to herself. Now Ho is resigning from the boards of seven of the state-led corporations.

So, can Singapore Inc. be fixed? Many analysts insist that only an outsider can break up the corporate culture of patronage widely blamed for the lethargy of the so-called government-linked companies (GLCs). Critics note that Temasek directors sit on the boards of corporations Temasek owns, and that the board

Chronic Laggards

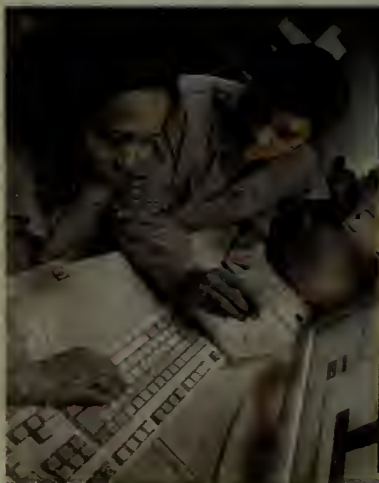
Many state-controlled companies are underperforming the Singapore All Equities Index, which is up 2.6% since January

YEAR TO DATE

SINGTEL	-14%*
SINGAPORE PRESS HOLDINGS	-7%
SINGAPORE TECHNOLOGIES ENGINEERING	-14%
SEMBCORP INDUSTRIES	-7%
CHARTERED SEMICONDUCTOR MANUFACTURING	-21%

*Figures to June 12, 2002

Data: Bloomberg Financial Markets





Ho Ching

AGE 49

TITLE Executive director, Temasek Holdings

EDUCATION MS, Stanford University

CAREER Ran Singapore Technologies, a state-controlled defense contractor

CHALLENGE Weaning the 40 or so companies under her charge from government protection and making them more profitable

MOST CONTROVERSIAL MOVE Allowing the collapse of disk-drive maker Micropolis, a Singapore Technologies affiliate

REPUTATION Known as a methodical decision-maker who is determined to solicit opinions from managers and win them over with logical argument

POWER PLUS As the wife of Finance Minister Lee Hsien Loong and the daughter-in-law of Senior Minister Lee Kuan Yew, supposedly has the power to shake up the cozy culture of Singapore Inc.

LEE AND HO: HER TIES MAY GIVE HER THE CLOUT SHE'LL NEED

members of those GLCs sit on the boards of other GLCs. Moreover, most GLC executives, while highly trained and dedicated, have spent their careers toiling at state-controlled companies, earning them the sobriquet "hothouse flowers." The criticism, say critics, is for an outside investor to take a stake in Temasek, whose 13 top companies posted combined revenues in 2001 of \$30 billion. As a U.S. equity fund manager in Singapore says no one "is in enough pain here to want to do that."

The Singapore government clearly believes a foreigner would lack the political power to enact changes. That's why it has turned to a member of the Lee family. "Putting in Ho Ching is a smart move," says one Singapore banker. "When you have the kind of clout she has, you can get a lot done without worrying about other variables." Singapore companies are long overdue for a shakeup, especially given the economy's fragile state. After all, ac-

cording to the U.S. State Dept., the GLCs account for 60% of the economy (though the Singapore government insists it's more like 13%). By and large, the GLCs are underperforming the private sector and the stock market (table). And while most are meeting Temasek's target of a 12% return on equity (ROE) or better, critics say that's because many of the GLCs enjoy what amounts to a domestic monopoly. For example, the Port of Singapore Authority is the sole port operator.

Moreover, analysts argue that applying a profitability measure as broad as ROE is meaningless to a conglomerate like SembCorp Industries, which is owned by Temasek and has diverse businesses, ranging from a zoo-management company to an Internet service provider. The only way to get an accurate picture, they say, would be to break the conglomerate into core businesses and apply industry-specific measures to each of them.

What should Ho do first? Analysts

believe she should complete planned restructuring tasks. One is the clumsily executed merger between DBS Bank and PosBank, which resulted in dual networks of branches and ATMs. Another is to force the merger of shipyards owned by SembCorp Industries and Keppel Corp., a process halted after arguments over pricing. And, say analysts, Ho should lean on SembCorp to spin off such subsidiaries as SembCorp Logistics, SembCorp Engineering, and Pacific Internet, a process halted in 2000 when they failed to fetch expected prices.

More difficult, perhaps, will be changing Singapore Inc.'s corporate culture from one that puts a premium on loyalty and political service to a more free-wheeling ethos. In particular, observers would like Ho to trim corporate boards of dozens of civil servants, military officers, and members of parliament.

The big question is whether Ho has the management talent to get the job done. Some contend that being CEO of Singapore Technologies is not like running a real company because it uses Defense Ministry research labs, saving on what would otherwise be huge research and development costs. And Ho's performance at ST was called into question in parliament following the 1997 collapse of Micropolis, a subsidiary that made high-end disk drives. Its failure cost Temasek \$340 million. Dhanabalan insists Ho was right to shutter Micropolis and cut its losses. For his part, Goh defends not only Ho but the entire Lee family on grounds that Singapore's talent pool is too small and the family's academic record too impressive not to employ them in key positions. "It is an exceptional family," says Goh. "Do we discriminate against them just because they're related?"

And therein lies the crux of the debate. No one disputes the achievements of Singapore's First Family. Under Lee senior, the city-state rose from an impoverished swamp to become a prosperous First World city. And yet, more recently the government has struggled and largely failed to bring the forces of the free market to bear on the nation's state-controlled companies. Ho Ching may be the right person to sort out Singapore Inc. But it remains to be seen if she can make the corporate bureaucrats under her hew to her will.

By Michael Shari in Singapore

BusinessWeek online

For a Q&A with Prime Minister Goh Chok Tong of Singapore, go to the June 24 issue online at www.businessweek.com.

COMMENTARY

By John Rossant

SUDDENLY, EUROPE FEARS FORTRESS AMERICA

Fortress Europe. That used to be the great fear of both the Washington political Establishment and Corporate America. As Europeans pursued more and more economic integration, the argument went, the U.S. would be shut out of the biggest single consumer market in the world. But it hasn't quite turned out that way. The trans-Atlantic commercial relationship, with its \$1 billion in daily two-way trade, is one of the richest business partnerships on the planet. And Europeans—cultural grumbles aside—have embraced Corporate America and its icons. Take just about any downtown corner in Europe, with Starbucks and McDonald's and Citibank branches in abundance, and it could pretty much pass for Anytown, U.S.A. Minus the Eiffel Tower and the Brandenburg Gate, of course.

How the tables have turned: If Europe Inc. has an existential worry these days, it's called Fortress America. When Germans, French, and Spaniards look across the Atlantic, they see walls going up ever higher around various parts of the American economy. Steel, timber, and agricultural products—they are all getting new pledges of protection from Washington. Sure, President George W. Bush espouses free trade, but it's hard to find a European who takes him at his word. "The bottom line is that the U.S. government is protectionist and the European Union is simply not protectionist, apart from agriculture," says Leo Apotheker, chief operating officer of German software giant SAP.

Of course, America's \$400 billion current-account deficit suggests foreign nations encounter few obstacles selling into the U.S. Just as important, the Americans and Europeans have a rich history of bickering over trade, then quietly settling their differences. And many a European politician must secretly sympathize with Bush when he makes a protectionist move to satisfy a local con-

stituency. The road to European Union, after all, is paved with local compromises and concessions of every stripe.

But Europeans have a subliminal feeling that something has changed for the worse in the U.S.-Europe dynamic. The protectionist messages from the Bush Administration seem



Washington preached about protectionism for years but now is practicing what it pleases

too inflexible—and too numerous—to be dismissed. The result is the dread suspicion that U.S. hegemony is less benevolent and far more one-sided in its demands than many thought. "European fears might be wrong," says Clyde V. Prestowitz Jr., former U.S. trade negotiator and now head of the Economic Strategy Institute, a Washington think tank. "Yet perceptions do count, and perceptions right now are bad."

America's moves are especially

galling to the growing ranks of Europeans who want the EU to promote free trade, not squelch it, and who want an end to subsidized business, not its resurrection. For free-market champions like Prime Ministers Tony Blair of Britain or José María Aznar of Spain, America's latest maneuverings are practically an act of unconscious betrayal.

Thus, the Europeans dislike the 30% protectionist tariffs that Bush slapped on steel imports last March.

Europe spent 30 years restructuring its steel industry—why can't the U.S.? And the Europeans really hate the \$190 billion farm-subsidy bill signed into law on May 14, a move that undercuts efforts to rein in Europe's agricultural subsidies. "The French will now have a very, very good argument against reducing payments to their farmers," says Paul Brenton, head of the trade-policy unit at the Brussels-based Center for European Policy Studies.

Sadly, the aftershocks of September 11 may make the trans-Atlantic divide even wider. Long-standing U.S. concerns about technology transfer—even to NATO allies—mean it will largely be American defense contractors that benefit from Pentagon spending. Even the British, staunch supporters of the U.S., may not get a break. British defense contractor BAE Systems wants to bid for U.S. satellite maker TRW Inc. The word in Washington is that the British should back off.

Americans were once right to be concerned about a protectionist Europe. It took a lot of shouting and cajoling before U.S. companies could enjoy a somewhat level playing field in the EU. Europeans and Americans must now make a similar effort to make sure Fortress America does not become reality.

Europe Regional Editor Rossant covers trade issues from Paris.

The network operations manager dreams of sleeping

FORTUNE
100 BEST
COMPANIES
TO WORK FOR 2002

agilent.com

Getting next-generation services up and running seamlessly can cause many a sleepless night. But Agilent has the cure. Because we're one of the world's leading providers of next-generation OSS network and service management solutions. And no other company in the world has more experience in testing, managing and optimizing operations, whether they're wireline, wireless, optical or IP. Now they're up and running, faster and better than ever. Sweet dreams.



Agilent Technologies

dreams made real

BANKING

CITI'S MEXICAN ADVENTURE

Its Banamex unit is thriving—and luring U.S. Hispanics

Just before Mother's Day last month, 20,000 Mexicans living in Los Angeles, Chicago, and Houston received catalogs from Mexican bank Banamex with an innovative offer. Instead of wiring home small sums of money so Mamá could make installment payments on a new refrigerator or stove, they could order one from the catalog, charge it to their U.S. credit card, and have it delivered to her in Mexico. The cardholder could pay over time for less than 13% annually, far below the 100% to 130% that appliance retailers charge back in Mexico. Only a handful of consumers responded, but Banamex and Citigroup are patient. "We're testing the waters to see what works and what doesn't," says Luis Peña, the new director for Hispanic markets at Citigroup, Banamex' parent.

The offer was a modest—and educational—foray into the Hispanic banking arena in the U.S. for financial giant Citigroup. A year ago, it paid \$12.5 billion to buy Mexico's largest financial group, Banamex, and its main holding, the country's second-largest bank, Banamex. While Hispanic banking stateside may prove a tough nut to crack, the Banamex purchase is looking smart. Citigroup kept the Banamex name and most of its local managers, and so far the bold purchase—some critics thought Citigroup overpaid—has been rewarded handsomely: Banamex figures to contribute \$1 billion to Citi's bottom line this year. "The synergies are considerably better than we had expected," says Banamex Chief Executive Manuel Medina Mora.

After swiftly integrating its Citibank operation in Mexico with Banamex, Citigroup decided the first order of business was to go after the potentially lucrative Hispanic market in the U.S. There are some 35 million Hispanics in the U.S., and 65% are of Mexican descent. Their buying power has caught the attention of Bank of America, Wells Fargo & Co., and others, but only Citigroup has major operations in the U.S. and Mexico. And on May 21, Citigroup extended its Hispanic reach by offering \$5.8 billion for San Francisco-based Golden State Bancorp Inc., which has



MEDINA MORA: Headed for \$1 billion in profit in 2002

353 branches in California and Nevada, where a third of all U.S. Hispanics live. "We want to be the financial-services provider of choice for all Hispanics in the U.S. and for Mexicans on either side of the border," says Peña.

But winning over U.S. Hispanics won't be easy. Marketers must take into account language differences and varying economic levels. Recent arrivals, who are big customers of wire-transfer services, must be approached in Spanish. Acculturated migrants respond to bilingual advertising for services such as student loans. Assimilated immigrants prefer English sales pitches for mortgages or business loans. "A lot of financial institu-

tions talk about Hispanic marketing, but I don't think many are making money out of it," says Philip J. Guarco, banking analyst for Latin America at Moody's Investors Service. "If anybody has the pieces in place to do it, it's Citigroup."

Peña's first goal is to grab a bigger share of the nearly \$10 billion that Mexican immigrants wire home each year. And the bank launched a Banamex credit card in April to capitalize on the bank's strong recognition among Mexicans. The U.S. Immigrants expect to establish credit cards with lines of credit backed by their bank deposits for a year before they are converted to regular cards. Banamex is pushing credit cards

Mexico, thanks to the strong growth in consumer spending. "That gives us the opportunity to roll out credit cards in a big way and get into the business that Citi has been traditionally very good at—consumer finance," says Edward Walsh, who heads Citi's new emerging markets consumer unit.

Meanwhile, Banamex is once again a money machine. Profits took a major hit initially as Citi spent an estimated \$1 billion to clean up problem loans, such as an Argentine subsidiary at a big loss, and buy out its pension-fund partner. But in the first quarter, Banamex contributed \$280 million in earnings—about 7% of Citigroup's profit. One reason: Banamex had cut annual costs by \$350 million—30% more than planned.

Citigroup's decision to keep the Banamex brand name and its Mexican managers also showed savvy. Only three of the top executives are Citigroup employees—the treasurer, the chief financial officer, and the head of corporate banking. "It was a very intelligent move," says Moody's Guarco. "The Citi brand name was very high in the corporate wholesale business, but within Mexico's retail banking sector, Banamex had a whole lot more brand equity."

So far, so good. "It's a long-term investment and a bet on continuing economic convergence between the U.S. and Mexico," says Guarco. New credit card holders in the U.S. ordering refrigerators for Mamá back in Mexico hasten that convergence.

By Geri Smith in Mexico City, and Heather Timmons in New York

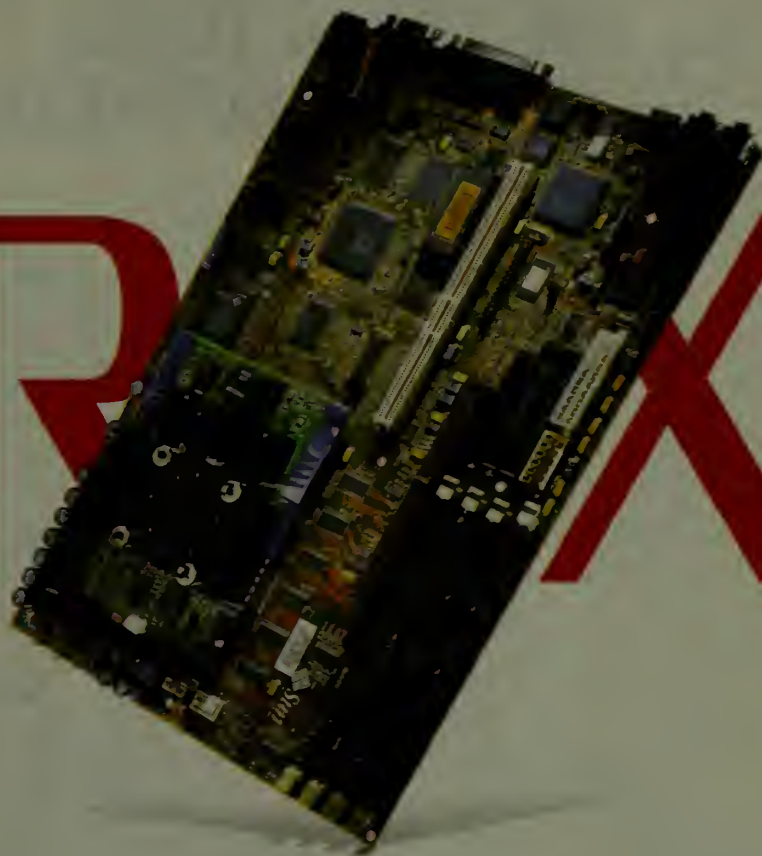
BANKING POWERHOUSE

Banamex has a strong grip on much of the Mexican banking market

CATEGORY	MARKET SHARE	RANK AMONG MEXICAN FINANCIAL INSTITUTIONS
DEPOSITS	28%	#1
PENSION FUNDS	24%	#1
CREDIT-CARD LOANS	34%	#1
MUTUAL FUNDS	22%	#1
BRANCHES	23%	#2

Data: National Banking & Securities Commission, National Savings & Pension Commission, Banamex

XEROX



Sun Microsystems has countless printers,
but only one output management services provider. Xerox.
By trusting our expertise they're free to focus on theirs.
There's a new way to look at it.

Learn more: www.xerox.com/learn For a sales rep: 1-800-ASK-XEROX ext. LEARN

XEROX CORPORATION All rights reserved. XEROX® The Document Company® and There's a new way to look at it are trademarks of XEROX CORPORATION
Sun Microsystems is a registered trademark of Sun Microsystems, Inc. Used with permission

THE DOCUMENT COMPANY

XEROX.

EDITED BY ROSE BRADY

WILL THE YOUNG TURKS REVOLUTIONIZE JAPANESE POLITICS?

Will he or won't he? Never have the political plans of a regional Japanese leader stirred as much interest as those of Tokyo Governor Shintaro Ishihara. While the appeal of Prime Minister Junichiro Koizumi is on the wane, Ishihara has grabbed the nation's attention with his attack on Tokyo's fiscal problems and his blunt talk of what Japan needs. Pundits and the local media are hotly debating whether Ishihara, who quit the ruling Liberal Democratic Party in 1995, will accept a recent offer to bolster Koizumi's fortunes by joining his Cabinet—or launch his own party to make a leadership bid.

Few pay attention when Ishihara rejects both options, as he repeatedly does. But, in fact, the influential 69-year-old pol seems to be adopting an even bolder strategy, one that could trigger an upheaval in Japanese politics. "The LDP is like the Soviet Communist Party on the eve of the country's disintegration.... It must be destroyed," he told *BusinessWeek* recently. "The [Old Guard] won't do it, so it's up to younger politicians to lead the revolution."

Rather than found a new party, Ishihara plans to support similar action on the part of a younger generation of LDP politicians, many of whom are fed up with the government and the state of the economy. These so-called LDP Young Turks—including Ishihara's son, Nobuteru, 45, now Koizumi's Administrative Reform Minister—are demanding far-reaching measures, from tackling the country's bad-debt fiasco to reviving the political system. "It's up to us senior politicians to back them," says Ishihara. "Otherwise, Japan will never produce a Tony Blair."

The Young Turks are contemplating a revolt within the party or the creation of a new political grouping. And while

it's not clear when they'll make their move, they are losing patience. In March, they pressed Koizumi to reduce the clout of LDP party factions and bureaucrats: By allowing bureaucrats free rein, faction chiefs push through pork-barrel projects and create slush funds for themselves. Koizumi ignored the proposals. "Koizumi failed us miserably," says Yoshiyuki Watanabe, 50, an LDP rebel. So he and other junior LDP members are "waiting for the right opportunity," he adds.

That could come if Koizumi calls a snap election, which may be forced to do if his popularity ratings, down by more than half to 40%, continue to plummet. Another chance would come if the LDP's faction chiefs decide to dump Koizumi.

though he has been boxed in by the factions, the Old Guard sees Koizumi as a threat and would love to be rid of him. Under either scenario—snap election or coup—the Young Turks might be able to grab control. The rebellion could even cross party lines, says Yasuhisa Shiozaki, 51, a former Bank of Japan official. "The younger generation in the LDP and opposition parties are starting to sense that the party lines we now have are irrelevant," he notes.

Will this group of rebels be more effective than others that

have tried in the past? The Young Turks are confident because they are not acting impulsively but drawing up a blueprint for reform—and planning carefully. And not only Ishihara is backing them. At a recent town hall meeting in Matsuyama, in western Japan, frustrated voters asked Shiozaki when he planned to make his move. "The energy building up, and the frustration is growing," he conceded. Many Japanese hope it's only a short time before it bursts.

By Irene M. Kunii in Tokyo



TEAMING UP: Nobuteru and Shintaro Ishihara

GLOBAL WRAPUP

ISRAEL'S SHAKY SHEKEL

► As if the fighting with the Palestinians were not enough, a tussle between Finance Minister Silvan Shalom and Central Bank Governor David Klein is further sapping confidence in the Israeli economy. Shalom has been pushing a bill to reduce Klein's power to set interest rates, leading to rumors that the governor will resign.

The uncertainty has contributed to a 14% slide of the shekel against the dollar this year. In an effort to stem the tide, Klein has sharply hiked rates

twice in the past month by 2.5 percentage points. But that hasn't settled markets worried about ballooning budget deficits and inflation, which has hit 7%. Gross domestic product is expected to shrink by 1% in 2002 after a 0.6% fall in 2001.

RUSSIAN OIL TO THE U.S.

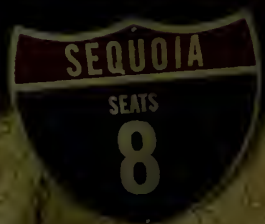
► Credit Russia's Yukos Oil Co. with a good PR move—and a smart strategic play. Its Western-oriented CEO, Mikhail Khodorkovsky, is arranging for a first-ever shipment of Russian crude to the U.S. in a tanker filled with 2 million

barrels of oil. In part, it's a gesture of solidarity with the West in the wake of a drop in Iraqi exports, to 375,000 barrels per day, vs. an average of 1.7 million in 2001.

But Khodorkovsky's dream of Russia crude exports of a million barrels per day to the U.S. is at least three years away. That's because infrastructure improvements such as a deep-water terminal in Murmansk aren't yet in place. Still, Khodorkovsky's gesture is in sync with his efforts to secure partnerships with Western oil majors—perhaps to sell Yukos at a fat profit



**IN SOME PLACES IT
DOUBLES THE POPULATION.**



**WITH EIGHT SEATS, VEHICLE SKID CONTROL (VSC) AND TRAC TRACTION
CONTROL SYSTEMS, THE CENSUS MAY NEVER BE ACCURATE.**



GET THE FEELING. TOYOTA.

toyota.com

WELFARE REFORM, ROUND 2

Keeping poor moms working won't be cheap

COMMENTARY

By Aaron Bernstein and Alexandra Starr

Annie Perry had been on and off welfare ever since the first of her three children was born 10 years ago. Perry, now 30 and single, held many jobs, including one as a Burger King manager, but could never find stable work that paid enough to keep her family afloat. Then, last fall, she enrolled in a training program for four months that taught her computer and office skills all day while she received a welfare check. After job-hunting for several months, Perry landed a post in March as the office manager of an Allstate insurance agency in her hometown of Raleigh, N.C. She soon got a \$2-an-hour raise and now earns enough, she hopes, to stay off welfare for good. "Everything is so great," she gushes. "My boss is sending me to school to get my agent's license."

Perry could easily be the poster mom for the country's six-year-long experiment with welfare reform. As the revamped system comes under scrutiny—the program is set to expire in September unless Congress renews it—Washington has deemed the redesign a smashing success, filled with thousands of stories like Perry's.

It started with the law President Bill Clinton signed in 1996 that adopted a new approach to aiding some of the nation's poorest families. Instead of just

handing out checks, states now demand that needy mothers try to find a job. Those who don't comply with the rules can be cut off, and every family faces a five-year lifetime limit on federal aid.

Though critics feared that thousands of families would be left hungry and homeless, it didn't turn out that way. Instead, the make-'em-work strategy slashed the welfare rolls by more than half, to just 5.4 million adults and children today. With employers desperate for workers in the late 1990s, legions of poor mothers were able to find jobs and move toward self-sufficiency. Coupled with new tax policies that reward work, such as the earned income-tax credit, the incomes of the country's poorest single mothers have improved since the early 1990s (chart). "I see no evidence of the disasters predicted by critics," says Rebecca M. Blank, dean of the University of Michigan's public policy school, who criticized the plan before joining Clinton's Council of Economic Advisers in 1997.

Now comes the second phase of the welfare revolution as Congress faces reauthorization of the program. The Bush Administration and House GOP leaders are proposing tougher work requirements to cut the rolls even further. They have been joined by some Democrats eager to prove their centrist credentials, including Senator Hillary Rodham Clinton (D-N.Y.) "A lot of [the success] had to do with the nation making a concerted effort to move people from welfare to work," President Bush



Four months of put Perry behind

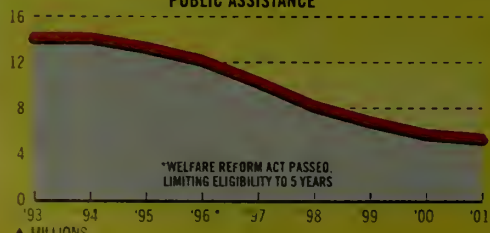
told former welfare recipients at a Jan. 4 White House event. Now, he says, "we want to raise the bar."

But ratcheting up the demands on welfare moms at this critical turn could end up backfiring. After the impressive record of the past five years, it's clear that most of those on the dole are willing to take a job if they can manage it. But it's also clear that they need help with the transition from dependency to the world of work.

Most who have left the rolls so far are still struggling and make much less than an official poverty-level income (charts). Even many successes like Perry need a hand along the way: State welfare agencies have been paying

AS THE WELFARE ROLLS HAVE DECLINED...

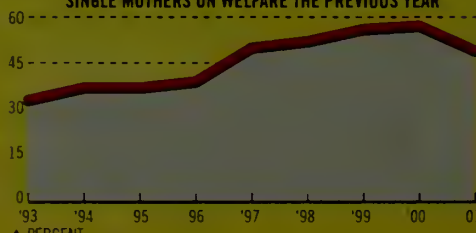
INDIVIDUALS ON PUBLIC ASSISTANCE



Data: Dept. of Health & Human Services

...MORE SINGLE MOTHERS ARE WORKING...

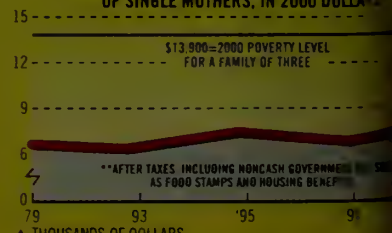
LABOR-FORCE PARTICIPATION RATE OF SINGLE MOTHERS ON WELFARE THE PREVIOUS YEAR



Data: Rebecca M. Blank, University of Michigan

...BUT THEIR INCOMES REMAIN PAINFULLY LOW...

AVERAGE ANNUAL INCOME** OF POOREST OF SINGLE MOTHERS, IN 2000 DOLLARS



Data: Richard Beyer, Office of Management & Enterprise



who give top billing to tougher work requirements, according to a March poll by Peter D. Hart Research Associates. Corporate America, which eyes welfare moms as a key pool of labor down the road, also favors a more generous approach. "We need to focus on basic areas like child care and transportation assistance; that's what business thinks is important," says Jonathan M. Tisch, CEO of Loews Corp., which has a program to hire welfare moms in its hotels.

Botching Round Two of the country's historic welfare overhaul would undercut the accomplishments of Round One. There's no question that the insistence on work has transformed America's welfare system. Today, a mother who walks into a local welfare office finds a completely different environment than before. Most states now push recipients to immediately look for a job and report back with the names of the companies they have contacted.

But finding a job doesn't automatically lead to self-sufficiency. Yes, the poverty rate of single moms has declined since the early 1990s. But those in the bottom fifth of the income scales, which includes most of the welfare-eli-

ning and education, like she got, all g, as well as for child care and sportation to work. What's more, 2 million mothers still on welfare n require even more help, since 're more likely to have intractable oblems such as mental or physical abilities or abusive spouses.

the U.S. is serious about helping e single moms make it on their own, n't be done on the cheap. This next e of reform will require a big expen- re—some say as much as \$11 billion e five years—for training and educa- as well as for child care, transporta- , and other aid. That should help poor hers get a reasonable shot at find- and holding a job (table, page 62).



So far, though, lawmakers seem fixated on proving how tough they can be. In fact, they seem to want it both ways. Stricter work rules could force already strapped states to set up costly public-jobs programs to get enough moms off the rolls. At the same time, Administration officials have been reassuring panicky governors that there are plenty of loopholes they can use to avoid such workfare programs, says GOP Governor Mike Huckabee of Arkansas. The result could be tougher standards, but only in states willing to bear the cost of enforcing them. "Many in Congress, on both sides, are playing 'who can be more pro-work than the other guy,'" says Michigan Governor John Engler, also a Republican.

Such posturing is a misreading of the public mood. Fully two-thirds of Americans say expanded assistance is their top welfare reform priority, vs. just 15%

PRESSURE POINT

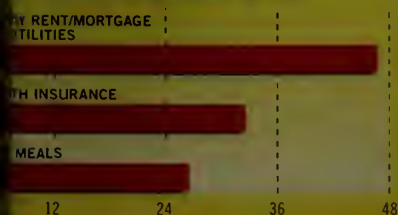
A medical aide's class in San Jose, Calif. The next wave of reform: Will the jobs be there?

gible population, earned an average of only \$7,900 in 2000, according to calculations by Richard Bavier, an economist at the Office of Management & Budget. While that's a 24% gain since 1993 after inflation adjustments, it's still more than 40% below the poverty line. What's more, the recession slashed welfare moms' workforce participation rate by eight percentage points last year, erasing fully half the gains since 1996.

Welfare recipients are so vulnerable because most have low skills and only land jobs at rock-bottom wages. Just 25% remain consistently employed for two years, vs. 57% of all women, ac-

...AND MANY STILL FACE SERIOUS HARDSHIPS

SHARE OF RECENT WELFARE LEAVERS EXPERIENCING HARDSHIPS IN 1999



Data: Economic Policy Institute

HOW TO FIX WELFARE REFORM

The 1996 welfare reform law, now up for renewal, has pushed many poor single mothers to find work. But they need more help when it comes to holding a job and caring for their children.

JOB ASSISTANCE

Provide more child care and transportation aid for mothers who land very low-wage jobs

EDUCATION Allow more mothers to receive welfare while they're being educated or trained

WORK BARRIERS Expand the 20% of

the caseloads that states currently can exempt from work requirements to include women who suffer from spouse abuse, mental illness, or physical disabilities

FLEXIBILITY Lift the current five-year lifetime limit on receiving welfare for moth-

ers who can only find part-time work or who can't find a job in a soft job market

UNEMPLOYMENT

Give welfare leavers access to unemployment insurance, which many can't qualify for because they work only part time or change jobs too frequently

HEALTH CARE AND FOOD STAMPS

Step up efforts to let families know they're still eligible for Medicaid and food stamps even after they leave welfare

MINIMUM WAGE Lift the \$5.15-an-hour minimum wage, which hasn't been changed since 1997

cording to the Economic Policy Institute, a Washington think tank. In some states, up to 40% of welfare leavers say they're worse off than when they were on the dole.

One unsettling sign: 1.8 million people who had left welfare in the prior two years visited a soup kitchen in 2001, double the number who requested emergency food aid in 1997, according to surveys by America's Second Harvest, a Chicago-based nonprofit that supplies most of the nation's emergency food aid.

Of course, providing more help to moms trying to work their way up raises welfare's cost, which is shared by Washington and the states. At the time of the 1996 reforms, Congress set its annual contribution at \$16.5 billion a year. The dramatic fall in the rolls has allowed states to shift money from welfare checks to child care and other aid for moms with a job. Cutting the rolls in half yet again, to 1 million adults, would require even more money. Child care alone would cost up to \$8 billion more over five years, says Mark H. Greenberg, an attorney with the Center for Law & Social Policy in Washington.

Problem is, most lawmakers aren't talking about how much it costs to get more mothers to work. They're just focused on shrinking the rolls. In the first round, states had to move 50% of their caseloads into 30 hours a week of employment, although 10 hours could be in training, education, or other job-preparation activities. Now Bush and the House GOP, backed by the centrist Democrats, want 70% of welfare moms to be working within five years. The 30 hours a week would jump to 40, with 16 hours allowed for job preparation.

Democrats are trying to soften the blow somewhat. Senator Clinton signed a letter written by Senator Edward M. Kennedy (D-Mass.) calling for restoring welfare for legal immigrants—who were cut off in 1996—and boosting child-care funds by \$11 billion over five years. But so far, the Bush and the Republicans plan to keep out immigrants and freeze federal funds at \$16.5 billion a year.

Washington's stinginess is the reason many governors fear they will have to set up public jobs programs like those tried in New York and Wisconsin. But

to clear debris from New York City highways. No permanent job ever came of it. Next year, she will hit her five-year lifetime welfare limit. "If I do find a job soon, they will cut me off and I have three kids," says Rodriguez.

Right now, her story wouldn't get much play in Washington. But the dynamic may change when the welfare debate hits the Senate in late June. Bush may agree to trim the 40-hour workweek and to add up to \$4 billion for extra aid over five years, White House officials say privately. But the

will fight anything close to Kennedy's \$11 billion plan.

The work rules may get watered down, too. Already they contain big loopholes. For example, mothers could count teaching their kids to read at home as part of the 16 hours of "training and education," says Michigan's Engler. No one will be monitoring them, he says, which means states could wink at the new rule.

In today's economy, tackling poverty is a challenge. Just

FACING A DEADLINE

Rodriguez is studying for a GED, but she must get a job by July or return to workfare



workfare programs don't help participants find private-sector jobs, studies show. New York officials recently testified that only 10% of workfare participants there found jobs lasting more than 90 days.

Rosario Rodriguez didn't even find that. She's a 39-year-old high-school dropout who has been on and off welfare since her first child was born two decades ago. In 1999, she was assigned

finding a job is difficult, especially for the many troubled mothers left on the rolls. But one thing seems clear throughout the years of social experimentation: The best way to keep up the progress on welfare reform is to offer recipients not a stick but a helping hand.

Bernstein and Starr cover social policy in Washington.



How can you increase
customer profitability?

Identify (and keep) your
most valuable customers?

And get greater ROI from
your marketing campaigns?

SAS® is all you need to know.

Only SAS provides you with a complete view
of your customers, so you'll understand their
needs, enhance their lifetime value and achieve
greater competitive advantage. To find out how
leading companies are reaping the rewards of
SAS customer intelligence software, visit us at
www.sas.com/customer

The First to Know

sas.



BAUMOL: Worried that tight security will disrupt the flow of scientific ideas

LUMINARIES

THE DANGER OF PLAYING IT SAFE

A top economist says the war on terror may stifle growth

William J. Baumol believes that the best guarantor of a nation's security is economic strength. The respected New York University economist cites a counselor to Louis XII of France, who once said a king needs three things to win wars: "First, money;

second, money; and third, money."

That's why Baumol warns against trying to combat terrorism by locking down the homeland. He says tight restrictions on communications and travel would disrupt the flow of scientific ideas that are vital to innovation and economic strength. "It's one thing to move

in the direction of tightening security," says Baumol. "It's another to engage in an anticipatory surrender."

Baumol deserves a hearing. He is past president of the American Economic Assn. and a perennial contender for the Nobel prize in economics. At 77 and still going strong, he is among the last working members of the great generation of post-World War II economists. He has contributed to fields ranging from antitrust theory to the origins of productivity growth. "His breadth is amazing," says Paul A. Samuelson, Nobel prize winner. "I used to say he was the last generalist in economics, but maybe I should add a few other names, like Baumol's."

In a new essay, Baumol also advocates reducing preparations for coming conventional enemies, on grounds that the U.S. has more than enough firepower for any current adversary, and that by the time another superpower emerges, weapons purchased now will be obsolete. He advocates redirecting some defense spending to education, basic research, and other "foundations of future economic growth." That would raise living standards and give the U.S. the wherewithal to rebuild—if needed—armed forces to handle "any unforeseeable military emergency the future may bring," he writes.

Baumol's take on security reflects his longtime focus on economic growth and the organizational structures for achieving it. He has collaborated with such Nobel laureates as Samuelson, Gary Becker, Robert H. Solow, and the late James Tobin. He invented the idea that service industries are plagued by "cost disease," as well as "contestability," the idea that companies whose markets are easy to enter can't charge monopoly profits even if they have no current competition. And with colleague Robert D. Willig of Princeton University, he devised a widely used rule for determining how much a company should

BAUMOL'S BIG IDEAS

Over the past 50 years, William Baumol has made groundbreaking contributions to a wide range of economic fields, including antitrust, the study of productivity, and the nature of growth. Here are some of his best-known concepts:

INNOVATION MACHINE

Capitalism stimulates innovation because companies constantly tinker with their products to differentiate them and retain pricing power.

CONVERGENCE

Industrialized nations with low productivity can be expected over time to catch up with high-productivity countries as laggards learn from leaders.

CONTESTABILITY

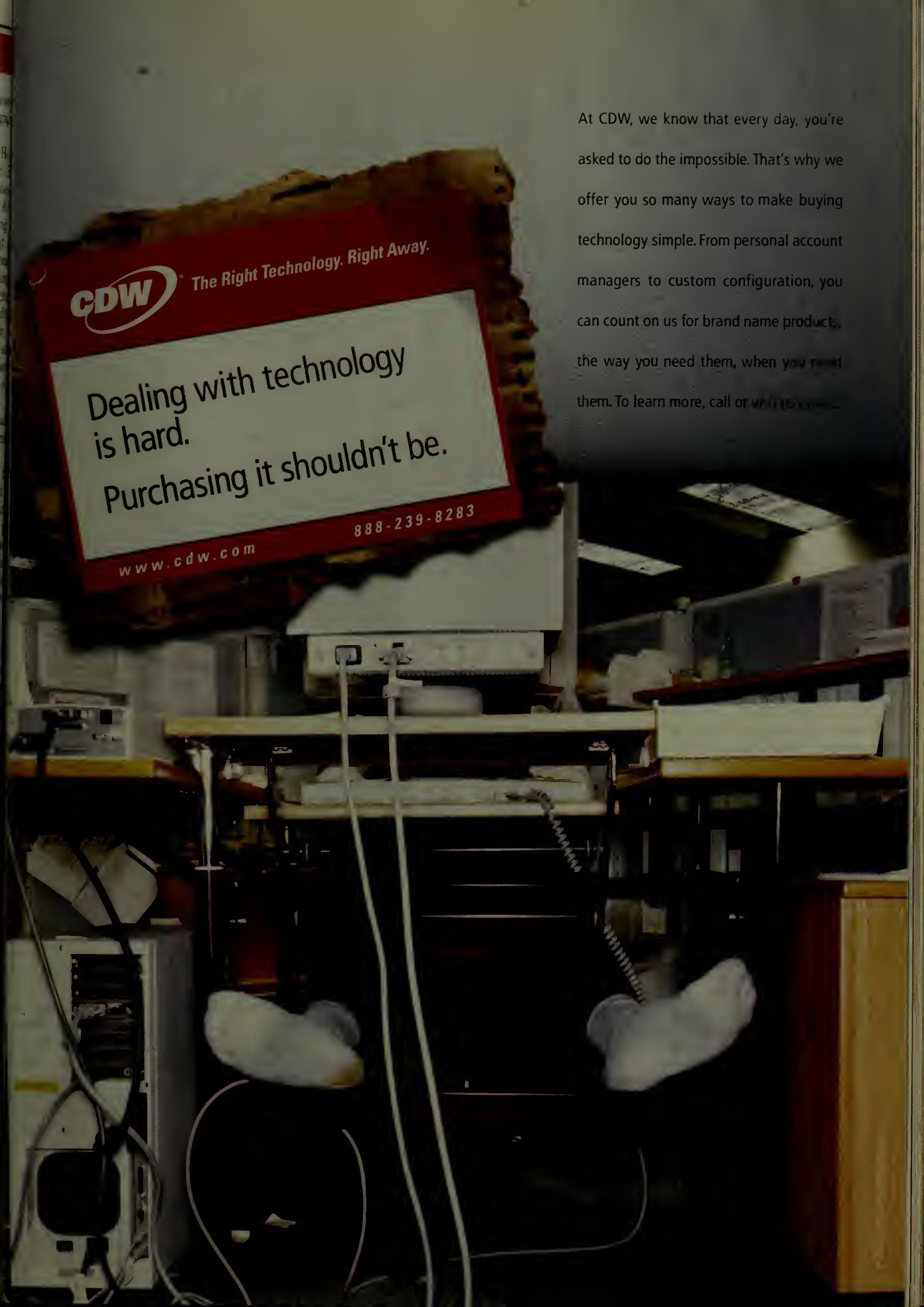
Prices in an industry such as airlines can be held down by the possibility of rivals entering a market, even if there is no apparent competition today.

COST DISEASE

Productivity growth is typically slower in service industries such as health care and education because it's hard to reduce the use of labor.

BAUMOL-WILLIG RULE

Companies forced to share their facilities such as phone lines with competitors should be allowed to get the same profit as when they use the facilities themselves.

A photograph of a cluttered office desk. On the desk, there is a computer monitor displaying a CDW advertisement. The desk is covered with various items, including a keyboard, a mouse, a telephone, and numerous papers and cables. The background shows more office equipment and shelves.

CDW The Right Technology. Right Away.

Dealing with technology
is hard.
Purchasing it shouldn't be.

www.cdw.com

888-239-8283

At CDW, we know that every day, you're asked to do the impossible. That's why we offer you so many ways to make buying technology simple. From personal account managers to custom configuration, you can count on us for brand name products, the way you need them, when you need them. To learn more, call or visit www.cdw.com.

allowed to charge when it's forced to share its facilities, such as phone lines to the home (table, page 64).

The courtly Baumol claims not to have a single enemy, a rarity in academia. He has spent his entire career at two institutions: Princeton, from 1949 to 1991, and NYU, where he taught for the overlapping period of 1971 to the present. He has also made a tidy sum as an expert witness in regulation and antitrust cases, testifying on behalf of railroads, airlines, and AT&T. To top it off, he's a trained artist who taught sculpture at Princeton for 20 years. His education was in painting, but he says he learned woodcarving from German prisoners of war he guarded in France during World War II.

Baumol is true blue in his admiration for the wealth-producing power of capitalism. "Capitalism has its warts. But there is one thing it does fantastically well, and that's innovation and the growth to which it leads," he says. He notes that per capita real income in the U.S. grew at least eightfold during the 20th century. In contrast, there was zero per capita income growth in Western Europe in the 1,500 years before the Industrial Revolution began.

The idea that capitalism forces the pace of innovation isn't exactly new. Karl Marx and Joseph Engels made the same point in 1847, when they wrote: "The Bourgeoisie cannot exist without constantly revolutionizing the instruments of production." Nonetheless, most modern economists have failed to appreciate the centrality of innovation, focusing instead on the efficiency with which the free market allocates resources. Even when they do acknowledge the importance of innovation, says Baumol, they don't pay attention to the conditions needed to foster it.

Baumol probes innovation in a book published this month, *The Free-Market Innovation Machine: Analyzing the Growth Miracle of Capitalism*. He says companies don't like to compete on price alone. To preserve a bit of pricing power, top companies constantly tinker with their products and license ideas from others. He says companies with valuable ideas have a financial incentive to share them—either for license fees or for reciprocal access to a rival's patents.

Such innovative activity requires open markets and a free flow of ideas. America is being forced to trade some of the innovation that drives economic growth for more security, says Baumol: "It is a price that terrorists have exacted from us." He simply argues that we shouldn't pay a higher price than is absolutely necessary.

By Peter Coy in
New York

The Corporation



CEO FORD:
A NEW
FOCUS ON
FORD DIV.

STRATEGIES

WHERE ARE THE HOT CARS?

Ford vows a product-led revival. It will take time to rev up

As Ford Motor Co.'s new chief executive, William C. Ford Jr., races to fix the troubled company, he's repeatedly promising "a product-led renaissance" to shareholders, employees, and dealers alike. Central to that revival, he says, is the company's mainstay Ford Div., the 99-year-old operation founded by his great-grandfather, Henry Ford, and known in-house as "the blue oval," after its signature nameplate. Ford says: "It's our identity. To succeed we must get the blue oval shining brightly again." Ford Div. accounts for 83% of the company's U.S. volume and, in years past, nearly all its profit.

You wouldn't know it to look at the division these days, however. The unit's once-lucrative sport-utility vehicles and

pickup trucks face tougher competition than ever, and Ford Div. sales this year have fallen 10%, vs. a 3% decline industrywide. In May, a dozen Ford models—from the Focus subcompact to the giant Excursion SUV—posted sales declines. Even worse, except for the new Expedition SUV that rolled out in May

and the addition of a diesel

equipped pickup this fall,

Ford Div. has little in

the pipeline for more

than a year. The unit's

market share has already

slipped to 17.5% from 19% at the end of 2001. "What's to say they're not going to lose more?" asks DRI-WEFA analyst Rebecca Lindblad. "They're stale."

The problem is that during the 1990s under former CEO Jacques Nasser, Ford Motor plowed much of its bountiful pro-



PROMISE TO EXPLAIN THE WONDERS OF OUR SYSTEM-ON-CHIP RESEARCH AND HOW SCOTLAND IS SHAPING THE FUTURE OF ELECTRONIC DESIGN.

BUT FIRST WE NEED TO GET PAST THE KILT THING.



ots of the
sign can
ced all the
ack to the
n toga.

kilts can
e used as a
camouflage,
bag or
ng bag.

ere never
ar outside of
riginating
nds, where
s were
sive and rare.
because
re impractical
ng.

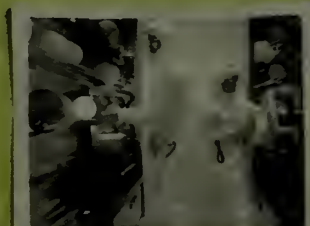
The reality is you'll find more Scots donning lab coats than kilts these days. In electronic design, our innovative Alba Centre is leading the world's R&D in System Level Integration technology, as well as promoting enormously successful collaborations between top universities and private sector partners. And of course, there's Dolly, or now famous sheep who became the first mammal cloned from an adult cell—a direct result of Scotland's thriving and inventive biotech industry.

Today, the question progressive companies are asking us has little to do with matters such as why we wear kilts—and has everything to do with how to gain access to the kind of vast knowledge base Scotland offers.

Scottish Development International is a government-funded organisation that has a network of offices around the world that can help your business tap into Scotland's key strengths in knowledge, high-level skills, technology and innovation.

Global companies are always looking for ways to gain a competitive advantage. Scottish Development International will help you find that expertise in Scotland. Find out more about bringing your business to Scotland. Or Scotland to your business.

Visit www.scottishdevelopmentinternational.org for more information.



SCOTTISH DEVELOPMENT INTERNATIONAL



BULLISH: Ford Div. chief Lyons will likely replace the Taurus with four cars

its from SUVs and trucks—totaling \$8.8 billion in 1999—into a heady expansion of e-commerce ventures, luxury car brands, and even junkyards. The company bought Volvo and Land Rover, expanded Jaguar, and rolled them all into the Premier Automotive Group. It gave PAG a big budget for new models, anticipating it would contribute one-third of global profits by mid-decade. (Analysts say it's still too early to tell if PAG will meet that goal.) Ford also poured resources into restoring the ailing Mazda Motor Corp. and Lincoln units.

But little attention was paid to the development of mass-market cars and trucks. And competitors took advantage of that. General Motors Corp.'s Silverado and Sierra pickups, for instance, overtook Ford Div.'s top-selling F series last year. New pickups from Toyota and Dodge also are crimping F-series sales and profits. Yet Ford Div. won't get a new pickup until the fall of 2003. Ford also has delayed overhauling its popular Ranger pickup, which will be over a decade old before it is replaced, say Ford sources. Concedes Kathleen Ligocki, vice-president of North American marketing: "We didn't spend enough money, especially on the Ford car side of the business." For now, all Ford can do is patch together rebates, cut-rate financing, and targeted price adjustments to move its aging lineup. Last year Ford Motor lost \$5.5 billion. It expects only a tiny profit in 2002.

When the new models do start showing up (table), Ford will be embarking on a risky strategy of parsing the market into smaller pieces, instead of relying on mass-market cars. Ford's boldest gambit will be to

The Expedition, Ford's sole new entry this year, sports close to the same styling as older version

replace its top-selling car, the Taurus, with a quartet of midsize sedans, car-based SUVs, and sport wagons. It's a pragmatic recognition that Taurus, America's best-selling car from 1992 to 1996, is now widely disparaged as a rental-company staple. Only the most highly regarded cars, Honda's Accord and Toyota's Camry, continue to grab huge volume. Stephen G. Lyons, Ford Div. president, won't say the Taurus is on its way out, but notes: "It's hard to sell 400,000 a year of anything. Now, we're dividing it into lots of 125,000."

Although this strategy originated under Nasser, it's now up to Bill Ford to make it work. Insiders say Ford Div. wants to position the upcoming Five Hundred sedan and CrossTrainer car-SUV as upscale Taurus alternatives. Both will be built in one of Ford's first flexible plants, in Chicago, on a Volvo platform. Both cars will be larger than the Taurus and, as premium models, would cost several thousand dollars more than the typical \$20,000 family sedan. Ford is betting it can profitably build the new models at the Chicago plant, which will adopt flexible manufacturing. This should enable it to build more than one model and change quickly to new ones. Some critics say it will be a reach for Ford to get the price it wants. But dealers are especially pleased about the Five Hundred.

"Taurus is dead in the water," says Jerry Reynolds, a Ford dealer in Garland, Tex., and former head of Ford's dealer council. "We've needed something between the Taurus and the Crown Victoria. This is a winner."

Ford hopes its other new models will have the benefit of its gradually improving quality. Coming late next year is a new Windstar minivan and a Mustang coupe that harkens back to the brand's glory days of the '60s. The company may also decide to import the tiny Fusion SUV it began building at a new factory in Brazil this year, according to DRI-WEFA analyst Lindblad. Beyond that, in 2006, Ford plans to bring out a compact SUV and a "multi-activity vehicle" based on the Mazda 6 series.

To stanch losses until the new models arrive, Ford is returning to a revenue system it pioneered in the '90s. Simply put, Ford tries to push its most profitable models by reducing prices enough to nudge consumers into choosing high-margin options. It's akin to airline management in its attempt to achieve maximum pricing while fully using available capacity. Merrill Lynch & Co. analyst John Casesa figures the technique combined with a richer mix of profitable trucks, helped Ford raise its North American pretax margin from 3.3% in 1995 to a peak of 9.2% in 1999. The

practice fell into disuse after that, but Bill Ford has signaled its return by naming Lloyd Hansen, an early backer, vice-president of revenue management. Says Lyons: "We can't push everything, so we pick four or five strong vehicles, get our dealers and advertising behind it, and drive traffic to the showroom."

Auto reviewers praise Ford Div.'s lone new entry for this year, the Expedition. The only knock: Its styling has barely changed. "People want to be seen driving a new car," says Lindblad. "If your neighbor can't tell the difference, why buy it?" The answer is that that may well determine if William Ford can get his product-led renaissance into high gear.

By Kathleen Kerwin in Detroit

A Ford in Your Future?

The company hopes that a series of new and revamped models will rev up its stalling U.S. car and truck sales

2002	Expedition SUV
2003	F-150 pickup truck; hybrid Escape compact SUV; Mustang sports car; Windstar minivan; GT40 muscle car
2004	Five Hundred sedan (below); CrossTrainer tall wagon
2005	Smaller midsize sedan; Focus subcompact
2006	Midsize SUV; midsize "multi-activity vehicle;" Super Duty pickup truck

Data: Company reports, DRI-WEFA





WHAT KIND OF DECISIONS DO YOU
MAKE IN HOLLYWOOD?
IF YOU'RE FOX™, ENTERTAINING ONES.

But you need the right information first. Fox Filmed Entertainment knows this. That's how they've become one of the most successful creators and distributors of blockbuster films in the world.

And that's why they chose Crystal Decisions™. Our web-based reporting, analysis and information delivery technology helps Fox track critical business information through distribution

channels and leverage that information to make smarter decisions. With over 10 million licenses shipped, and partners including SAP™ and Microsoft®, we've proven our solutions

deliver information, cut costs and improve productivity. Want to learn more? Visit: www.crystaldecisions.com/ent/005/, or call 1-866-821-3525.



ALL OF A SUDDEN, BEING ON
THE TECHNOLOGY COMMITTEE
LOOKS PRETTY GOOD.

IBM



INTRODUCING E-BUSINESS ON DEMAND THE NEXT UTILITY

Topic for today's meeting: implementation, integration and management of a new online procurement solution. Could be a headache. But with e-business on demand,[™] it's not your problem. You get everything from storage by the gigabyte to advanced end-to-end services, up and running, without long delays or huge up-front investments. It's accessible. It's affordable. It's The Next Utility.[™] Meeting adjourned. Visit ibm.com/e-business/ondemand or ask for on demand at 800 IBM-7080.

OLYMPICS
HEROTarnish on his
Golden Boy glow

crat in early po
Massachusetts
publicans began t
ing about Romney
the great hope o
state party so w

that it doesn't hold a single seat in Congress and has only token representation in the state legislature. "Romney is a new beginning," says Jonathan Fletcher, executive director of the Massachusetts Republican Party. Adds GOP consultant Scott W. Reed: "Romney has made it a competitive race...in a year we're facing a guaranteed net loss of governorship."

Even Democrats began handicapping Romney's Presidential prospects. If he wins in Massachusetts, "the Republican Party would clearly see Mitt as national ticket material," says former Democratic National Committee Chairman Steven Grossman, one of five Democrats vying to oppose Romney in November. "When Romney galloped in on his stallion, the view was that this was his election to lose," adds former Clinton Labor Secretary Robert B. Reich, another of the Democratic candidates.

Suddenly, however, Mitt's horse mired in the muck of Massachusetts politics, and the supposed shoo-in is facing what now looks to be one of the hardest-fought gubernatorial contests this fall. "It will be a real battle," concedes Romney, looking ruffled and somewhat perplexed during an interview at his crowded campaign headquarters. "Running the Olympics is nothing" like running for office in Massachusetts, he says, "where politics is a blood sport."

Romney's first big setback came June 7 when the state Democratic Party challenged his right to be on the ballot, arguing that he had not been a resident of Massachusetts continuously for the seven previous years, as required by the state constitution. But even Massachusetts Treasurer Shannon P. O'Brien, another Democrat hoping to oppose Romney, concedes: "The chances of knocking him off the ballot are slim."

That's because the state's Ballot Law Commission traditionally takes a broad view of the residency requirement and

ELECTIONS

NOT SO FAST,
MR. ROMNEY

Massachusetts won't be the easy pickings Mitt imagined

He didn't get the gold, but few received as much acclaim during the Winter Olympics as Mitt Romney, CEO of the Salt Lake Organizing Committee. When the telegenic Mormon multimillionaire parachuted in from Massachusetts to rescue SLOC in 1999, it was facing a \$379 million deficit and the worst scandal in modern Olympic history. By the time the Olympic flame was extinguished in February, Romney had produced a \$50 million sur-

plus and near-flawless Games, despite the terror threat. "Mitt, you did a fabulous job," gushed President George W. Bush at a post-Olympics celebration.

With raves like that, no wonder Republican Romney seemed headed for a coronation when he announced in March that he was running for governor of Massachusetts. Although just 14% of voters there are registered Republicans, Romney had overwhelming favorability ratings—and easily bested every Demo-

STATE RACES TO WATCH

With 36 governorships up for grabs, Dems could regain the majority they lost in 1994. That's because the GOP must defend 23 states, Dems just 11, independents 2.

FLORIDA

Dems are aching to defeat Jeb Bush. His foe will be former Attorney General Janet Reno or union-backed lawyer Bill McBride.

CALIFORNIA

Conservative Republican Bill Simon is coming on strong against incumbent Democrat Gray Davis, who has an energy crisis to answer for.

NEW MEXICO

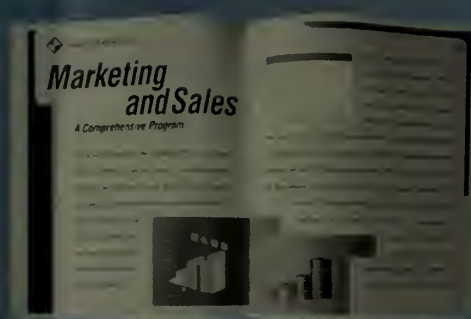
Historic Hispanic-vs.-Hispanic matchup. Former Clinton Energy Secretary Bill Richardson takes on conservative Republican John Sanchez.

PENNSYLVANIA

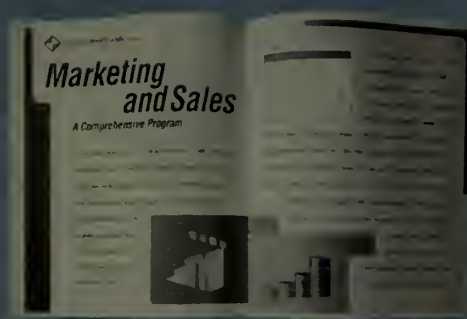
Former Philadelphia Mayor Ed Rendell must best Republican Attorney General Mike Fisher. Pennsylvania went for Gore in 2000.

HAWAII

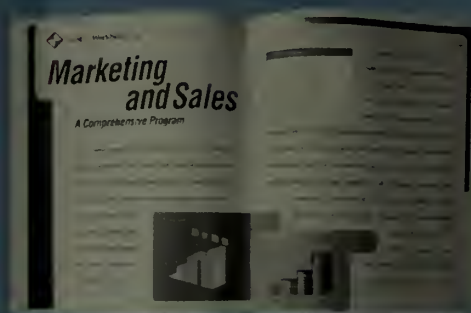
Republicans have big hopes for state GOP Chairwoman Linda Lingle, a centrist who will take on the winner of a Democratic primary.



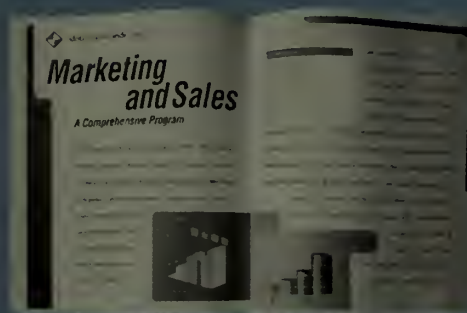
After extensive



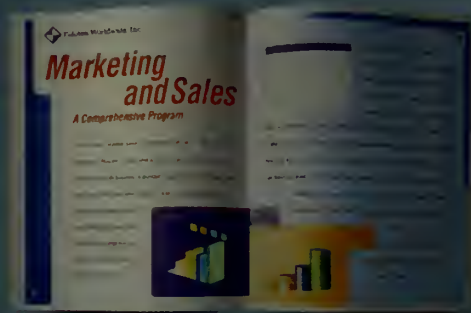
research, we



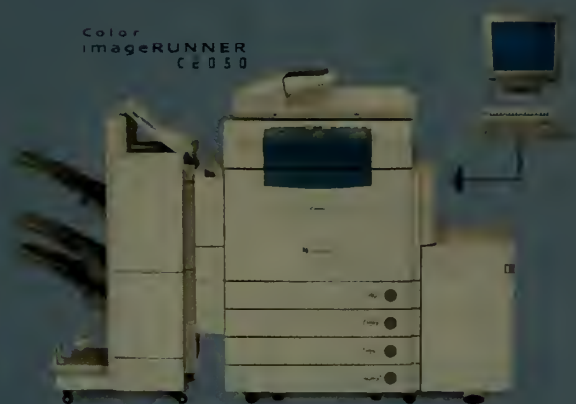
finally found



room for



improvement.



The remarkable innovation of Canon ImageRUNNER. The unrivaled heritage of Canon color. Both are available from a brilliant solution. The amazing Color ImageRUNNER C2050. A fully-connected, network-compatible, 11 page-per-minute wonder. It expands your color capabilities, so you can create professional-quality, finished documents — in full color or black-and-white — right from the desktop. At Canon, we're giving people the know-how to bring office documents to a colorful new level.



now, more than ever,
feel secure
that only the right people
access your **N**etwork.

Keep your valuable data out of the wrong hands with the power of Access and Security solutions from Novell. Administrators can choose one or multiple authentication methods to identify users with absolute certainty. Users have the ease of a single enforceable ID they use anytime, anywhere—resulting in up to a 95 percent decrease in password-related help desk calls. And our software can be integrated with a full range of your existing security products, from password protection to biometrics. To have the power of Novell at your fingertips, visit www.novell.com/solutions/access_security today.

Novell.
the power to chaNge

Government

ney continued to vote in Massachusetts even while he was running the Olympics in Utah. Besides that, the five-member commission, which is appointed by the governor, has three Republicans, one independent, and one Democrat.

The problem for Romney is that as the flap erupted, the Olympics' Mr. Romney was caught making inconsistent statements about whether he had filed as a Massachusetts resident for tax purposes in 1999 and 2000. In fact, he got a \$100,000 tax break on a \$3.8 million home in Utah because he was not a state resident.

But that has given Dems plenty of ammo. "Serious questions have been raised about his integrity," fumes O'Brien. "He has," adds Philip Johnston, chair of the Massachusetts Democratic Party. Romney chalks up the confusion to the complexity of state laws. "It was a rookie mistake," says Ron Kaufman, a Washington-based counselor to the Bush family. "The campaign is still getting its legs."

Until Romney arrived, Dems were expected to face off against the blunder-prone incumbent, Governor Jane Byrne. That attracted an all-star cast of challengers, including Senate President Thomas F. Birmingham, clean-elections candidate Warren Tolman, plus O'Brien, Kassman, and Reich. On June 1, the state Democratic convention voted to eliminate any of them. As a result, "the five Democrats will beat the hell out of each other over the summer," predicts the teacher.

Indeed, the Sept. 17 primary is shaping up as intensely competitive. O'Brien, a moderate who blew the whistle on over-inflating on the Big Dig—a massive project to put Boston's central arteries underground—was considered the front-runner but was endorsed by the convention. But she faces a stiff

challenge from Birmingham and from Reich, who is underfunded but has enthusiastic support among college students and well-heeled liberals. And Kassman, who polls poorly but has raised \$3.5 million, could shape the outcome with his expected TV ad blitz. As a result, Reich says it may take no more than 35% of the vote to win.

Despite the disarray among the Dems, Romney is already bracing for the character attacks this fall. For starters, Democrats—dusting off the trait painted by Edward M. Kennedy

during Romney's failed 1994 bid to unseat the senior senator—will argue that the former chief executive of Bain Capital Inc. is a robber baron who heartlessly slashed jobs to build his own fortune. This time, Romney will respond that, on balance, Bain's investments created thousands of jobs.

Democrats will also argue that "Romney's right-wing social views would not resonate well within this state," says Johnston. He complains that Romney



REICH:
Backed by rich liberals, college crowd

has offered scant support for gay rights and has flip-flopped on abortion. But O'Brien has also shifted her abortion stance. There also may be some lingering animosity towards Romney—especially among women—because of the way he came charging into the race, forcing Swift to withdraw almost immediately.

More important, Romney faces a tough balancing act on fiscal policy. With plunging revenues creating a budget gap of about \$3 billion, "Massachusetts is facing the most serious fiscal crisis since World War II," says Michael J. Widmer, president of the Massachusetts Taxpayers Foundation. In response, the legislature is preparing to raise income, cigarette, and other taxes by more than \$1 billion. Romney says he would accept those increases but work to roll them back before the end of his first term.

Romney also predicts that he could save as much as \$1 billion by slashing patronage, inefficiency, and other waste. And he vows to shake up failing public schools—with English immersion classes, merit pay for teachers, and full-day kindergarten.

Many Dems concede that Romney has a huge advantage as an outsider running against an entrenched power structure. A staggering 73% of voters have only a fair or poor view of the job the legislature is doing, and 58% are dissatisfied with the

performance of state government, says John Gorman, president of Cambridge pollsters Opinion Dynamics Corp.

Still, "this race is probably a 50-50 toss-up," says Gorman. Sure, Romney has enormous star appeal. But after 12 years of Republican governors, the Democrats are hungry for victory and have vast resources on their side. Throw in the residency flap, and it's clear that the savior of Salt Lake isn't looking at a downhill run.

By William C. Symonds in Boston, with Lorraine Woellert in Washington



O'BRIEN:
Moderate, now the Dem front-runner

Novell®

presents

one Net
tech fact
of the week.

In 2003, how many individual wireless data users will there be in the U.S.?

- a. 8 million
- b. 12 million
- c. 19 million

answer: "c"

In-Stat/MDR expects the number of U.S. individual wireless data users to grow from 6.6 million reported in 2001 to more than 19 million in 2003, reaching an expected 32 million users by 2005.

More than 50% of current subscribers state that remote e-mail is the leading driver of this growth. In addition, order entry and access to company databases—including sales, CRM, and inventory management—are contributing to the increased number of remote database applications.

Data provided by

In-Stat/MDR

www.instat.com

<http://www.novell.com/products/zenworks/handhelds>



Jessica Goepfert

is the program manager for the ASP and Application Management Services and Business Service Providers (BSPs) programs at Framingham, Mass., based IDC, a leading information technology research firm. She specializes in studying the financial impact of these new software-delivery models in the enterprise environment. We asked Ms. Goepfert what this new business service provider model offers, and why business managers should pay attention.

Ask THE Experts

Q. What is a business service provider (BSP), and how does it differ from the traditional software companies and more recent innovations like application service providers (ASPs)?

Business service providers offer a much richer set of services and support, going beyond application access and management to assume responsibility for the actual business process execution and support. With traditional software, all technical application management must either take place in-house or be provided by a third-party technical support firm, leaving an enterprise pretty much on its own when it comes to streamlining and implementing business processes. The ASP model is a large step up from traditional software, because ASPs take on the chore of technically managing an application and delivering it over a network. However, enterprises are still left on their own in managing the actual business process.

BSPs do much more: they not only manage the application infrastructure, but assume responsibility for supporting or executing a business process. By leveraging their expertise in business processes like procurement or logistics, BSPs ensure that these processes are implemented efficiently.

Q. What advantages do BSPs offer to today's business enterprises?

BSPs can pack a one-two punch, delivering the benefits of both tra-

ditional business process outsourcers and the emerging xSP model. Among them:

> Process improvement. Some companies fail to realize the full potential of their investments in state-of-the-art technology because of their inefficient business processes. Because they have completed sometimes dozens if not hundreds of similar engagements, BSPs have the knowledge and experience to ensure that best industry practices are employed, and so can wring out the inefficiencies in internal business processes.

> Ability to focus on core business. Although it's tough to put a dollar value on it, the ability to focus on an enterprise's core business is one of the most immediate benefits of working with a BSP. By freeing enterprise executives from many of the day-to-day burdens associated with the general running of a business, BSPs allow them to direct their energies toward more strategic, revenue-generating initiatives.

> Financial benefits. Although the financial benefits can vary from engagement to engagement, cost reductions, gains in operational efficiency, improved cash flow, and a positive ROI are all typical results of working with a BSP. One of the most significant of these benefits is an enhanced ability to scale as an enterprise grows.

Because BSPs leverage technology and expertise across their often large customer bases, they can better handle their clients' growth spurts than can an individual client with a one-off business system and limited experience with higher-volume operations.

> Access to the latest technology. BSPs have much greater capacity than a single enterprise to invest in the latest technology and the talent to manage it. This gives BSP customers the benefits of using sophisticated, cutting-edge technology without having to bear the costs or risks often associated with these technological innovations.

Q. What qualities should a company look for in selecting a BSP?

Successfully executing on the BSP model requires skills in three key arenas—business processes, technology, and services. Customers should seek out vendors with capabilities (or close partnerships) in all three areas. Customers also should probe BSP vendors, particularly young, venture-backed startups, about their financial viability. Finally, customers should ensure that BSPs have adequate security arrangements in place—in fact, a high-caliber BSP usually can provide better security than an enterprise can supply with its own internal resources.

For more information, call
1-800-874-8647 x 263
or visit
www.unisys.com/outsourcing

UNISYS

Imagine it. Done.

imagine it.

>	Systems Integration.
>	Outsourcing.
>	Infrastructure.
>	Server Technology.
>	Consulting.

Done.

If you're running an organization, or even a division within an organization, we think it's a safe assumption that you know what you're doing. Which is why we pride ourselves on being more than big thinkers.

We're sure you have plenty of people telling you what to do. But how many stick around to help you actually do it? That's where Unisys comes in.

First we respect your vision. Then we work with you to achieve that most difficult thing in these difficult times: ROI.

Precision thinking. Relentless execution. That's us. Thinking focused on where you want to take your business. Execution focused on efficiency, affordability and totally practical results.

Major names that have already put our expertise to the test in finance, communications, transportation and publishing include The Wall Street Journal, Subaru of America, Inc., Mary Kay, Inc., HSBC, Barclays, Vodafone Group Plc, Lloyds TSB, and more.

In the public sector, the U.S. Department of Defense, the Commonwealth of Pennsylvania and the governments of Malaysia and Brazil have too.

From outsourcing to systems integration to infrastructure to server technology to consulting, we focus it all on what you need.

So, that vision you have of what your company could be, what it could achieve, how efficiently it could run.... Imagine it. Done.

UNISYS

Imagine it. Done.

unisys.com 800 874 8647 x262

COMMENTARY

By Paul Raeburn

THE CREDIBILITY GAP IN DRUG RESEARCH

It's supposed to be the gold standard of medical research: Doctors randomly split research subjects into two groups, with some getting a new drug, others a sugar pill. To avoid any bias, the researchers don't know who's getting what. This ritual—the randomized, double-blind clinical trial—often takes years and costs tens of millions of dollars, but it produces clear, unbiased data on the benefits of drugs.

At least that's the way it's supposed to work. In fact, the reports of those results are often misleading or incomplete. On June 1, the *British Medical Journal* published a report critical of a Pharmacia Corp.-funded study of its \$3 billion-dollar-a-year arthritis drug, Celebrex.

The report claimed the study's favorable results omitted contradictory data. And on June 5, *The Journal of the American Medical Assn. (JAMA)* published a series of reports critical of the way trials are done and reported, and the way conclusions are often couched to make new treatments seem better than they are.

The Celebrex case illustrates one such problem. The study, reported in *JAMA* by company-funded researchers two years ago, concluded the drug was associated with fewer ulcers and ulcer complications than two other drugs, ibuprofen and diclofenac. The *British Medical Journal* says the article was misleading because it omitted data that found no safety benefit for Celebrex. (The additional data were later made public at a Food & Drug Administration advisory committee meeting.) G. Steven Geis, Pharmacia's vice-president for research, says information was omitted only because it was not reliable. On June 7, however, the FDA decided, using all the data, that the

study "did not show a safety advantage in upper gastrointestinal events for Celebrex."

Critics blame industry sponsorship for these problems. It is not only the published studies that cause concern but also the studies that never appear, says Dr. Drummond Rennie, a deputy editor at *JAMA* and professor at the University of California at San Francisco. When a study starts going wrong, its sponsor may be tempted "to stomp on the investigators and say, 'You must keep this quiet....'" And "companies have yielded to that temptation," he says. Others agree. "In situations when there are large economic interests, you just cannot be sure whether the problems in the trial have been re-

solved in a fair way," says the author of the *British Medical Journal* article, Dr. Peter Juni of the University of Bristol in Britain and the University of Berne in Switzerland.

"That's not true," says Mark

Grayson, a spokesman for the Pharmaceutical Research & Manufacturers of America. Drugmakers support efforts to assure the independence of academic researchers who participate in industry-sponsored trials, he says.

Rennie thinks editors at the prestigious medical journals are getting better at policing these issues. He is still rankled, however, by *JAMA*'s publication of the Celebrex study. The study's authors, including Pharmacia, "were not open with us," he says. "They signed letters saying the studies have all the relevant stuff," but "they had contradictory results when they sent us this paper, and they should have revealed them to us. And they didn't." Says Pharmacia's Geis: "We've tried to work real hard with *JAMA* to resolve any misunderstanding.... We value *JAMA*."

Rennie says universities and their researchers must insist on guarantees from company sponsors that the results can be freely reported. Juni says the industry could fund an independent agency to finance studies. The FDA, which often has more data than the journals, does point out discrepancies, says Dr. Sandra Kweder, deputy director of the FDA's Office of

New Drugs. But "it's difficult for us to police every potential journal," she says. "We don't have a department of journal review to catch those things."

The aim is to restore confidence in the findings of medical studies. As was the case with Celebrex, these studies are often widely circulated in the medical community. Many doctors begin prescribing drugs based on the findings, before the FDA rules on whether the studies have met its standards. If confidence in the veracity of medical research is lost, however, it is the pharmaceutical industry that will suffer.

Raeburn covers science and medicine in New York.



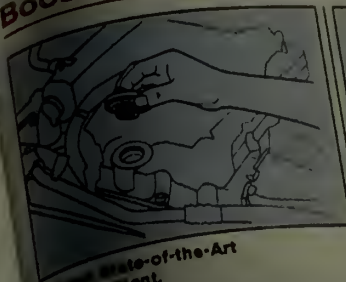
CELEBREX
A Pharmacia-funded study is under fire

WEIRD SCIENCE

Here are some of the criticisms made by research authorities who, in the June 5 Journal of the American Medical Assn, reviewed the quality of current medical research literature

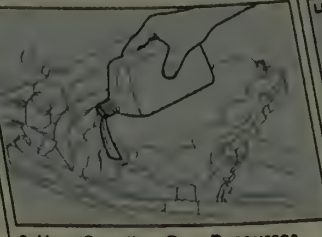
- Studies often fail to put results in the context of previous studies
- Authors of studies do not adequately address legitimate scientific criticism after publication, and journal editors do not require them to do so
- Study collaborators frequently disagree about their study's conclusions, and the published reports often fail to represent the full range of authors' opinions
- Guidelines showing how results ought to be reported are often ignored or badly applied

Boosting Mississippi's Economy.



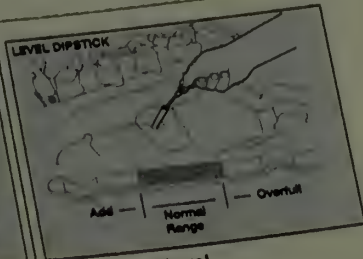
1. Create State-of-the-Art Automotive Plant.

Build a 2.5 million square foot facility
state to build trucks, SUVs
Begin erecting structure
y.



2. Have Suppliers Pour Resources Into Local Economy.

Production suppliers like
Lextron/Visteon Automotive Systems,
Systems Electro-Coating and AJA
SouthStar Transport begin
constructing new facilities in order to
be closer to the plant.



3. Check New Level of Economy.

With the creation of thousands of
new jobs and over a billion
dollars injected into the region,
observe the economic levels increase.



FLY THROUGH PILOT TRAINING. LITERALLY.

Learn to fly with Cessna's Computer-Based Instruction.

Rise to the top faster than you ever thought possible. With Computer-Based Instruction from a Cessna Pilot Center, you can learn faster, fly smarter and earn your wings faster in a fraction of the time for a fraction of the cost. Best of all, you can start flying for as low as \$75 a month. So get things off the ground by calling 1-877-FLY-B-FREE (359-2373) or visit earn2fly.com today. It's

the only way to fly. The cost of instruction is not included in the monthly fee. A license is required to fly.



Cessna
Pilot Center

Developments to Watch

EDITED BY NEIL GROSS

PILLS CHIPS MAKE WELLS AND SHOTS OBSOLETE?

AS LONG AS PILLS AND INJECTIONS remain the standard methods of delivering drugs, patient compliance is likely to be a problem. People afflicted with diabetes, cancer, and AIDS would certainly appreciate an easier way.

John T. Santini Jr., president and chief scientific officer of MicroCHIPS Inc. in Cambridge, Mass., says that within five years, he may be ready to market an appealing option for some types of drugs. The company is revving up development

of a small but smart drug-delivery device. It's a chip packaged in titanium, about the size of a quarter, that would be implanted in the body, probably near the abdomen. It contains 400 wells that hold concentrated drug dosages, along with a microprocessor and a battery that can last a year. The chip would be programmed to release medication when a patient needs it by dissolving a microscopic gold electrode that caps each well.

The advantage this method has over other implants and medical patches is that it can deliver more than one drug at different intervals. That

would be especially useful for cancer patients, who often take several types of chemotherapy.

Down the road, drug doses might be customized for patients and timed to attack a cancer cell at a precise moment in the cell cycle, says Philip C. Smith, director of drug-delivery systems at GlaxoSmithKline PLC. Hormones could be delivered in periodic bursts to mimic the body's production rather than in steady flows. And the chip need not be removed if the schedule changes: The patient or doctor could reprogram it using a handheld wireless device.

Faith Keenan

INNOVATIONS



■ Using conventional microscopes, Steven Finkbeiner was unable to fully monitor neurons ravaged by Huntington's disease (above). So the researcher at the Gladstone Institute of Neurological Disease invented a better scope. Fitted with robotic controls and homegrown software, the device, for the first time, has enabled Finkbeiner to precisely track individual cells over a period of days or weeks while repeatedly transporting the cell cultures in and out of the incubator.

■ Before scientists are able to bestow on humans the salamander-like ability to regenerate limbs, they must learn a lot more about the genes that regulate growth. Toshihiko Ogura may have elucidated one small piece of the puzzle. By implanting in chick embryos so-called TBX genes associated with the growth of fingers and toes, Ogura and his team at the Nara Institute of Science & Technology in Japan were able to add new bones to the second and third toes of the developing chicks.

■ How big is the promise of agricultural biotech? The National Center for Food & Agricultural Policy, a research organization backed partly by agribusiness, recently reviewed 40 case studies of 27 crops. It concluded that the use of biotech could help increase yearly food production in the U.S. by 7 million tons and add \$2.5 billion to farm income while slashing pesticide use by 81,500 tons.

MELTING FAT—AT LEAST IN MICE

AN ANTICANCER COMPOUND UNDER INVESTIGATION at Johns Hopkins University School of Medicine shows promise in an unexpected arena: obesity. Biologist Francis P. Kuhajda and his colleagues report that the drug, called C75, strongly reduces appetite in mice—and brings additional benefits. When animals produce fat, Kuhajda says, they also produce a molecule called malonyl-CoA that inhibits the burning of fat for fuel. It does this by blocking an enzyme, CPT1, that serves as a kind of gatekeeper, allowing fat to enter the cells' mitochondria. When mice are given C75, their levels of malonyl-CoA skyrocket, which ought to signal that they'll store more fat. But instead, Kuhajda notes, CPT1 performs better than ever, and the mice actually burn fat more quickly than control animals do. Kuhajda's team is working with a Hopkins spin-off, FASgen Inc., to separate the anti-obesity effects from the anticancer effects. And they are starting to test a second generation of anti-obesity molecules on mice.



HOW TO MAP THE RADIATION DAMAGE FROM A 'DIRTY' NUKE

THE ARREST OF A SUSPECTED Qaeda operative thought to be planning a "dirty bomb" attack highlights the terrifying risk posed by such radioactive explosives. At the Systems Management & Production Laboratory, on the University of Alabama's Huntsville campus, Director Gary A. Maddux was one step ahead. In the wake of September 11, he concluded that first respon-

ders would need new tools to assess the contamination caused by such a bomb. The result is ALARM—Automatic Large Area Radiation Mapper—a handheld device that helps rescuers quickly define the area of greatest risk.

Maddux realized that by knowing where it's hottest, emergency personnel could cut their own risk, evacuate those at greatest peril, and isolate the most dangerous areas. To create ALARM, Maddux's team cobbled together off-the-shelf hardware—a PDA, a global-positioning system

plug-in card, and a compact geiger counter—into a prototype able to record radiation levels as rescuers probe a bomb site. The resulting coordinates, he adds, can be used to rapidly construct a perimeter map of radiation intensity.

Having received a thumbs up for a unit tested by the Alabama Emergency Management Agency, Maddux now wants to pass the design on to a manufacturer, gratis. "You develop it because it's needed, but you hope it's never used," he says. *Adam Aston*

...celebrating 50 Years
of Flight!



THE NAVITIMER

In 1952, just as civil aviation was starting to take off, BREITLING created the first wristwatch equipped with a circular slide rule able to handle all calculations required for airborne navigation. The NAVITIMER quickly proved a firm favorite with pilots and aviation enthusiasts, coming to represent the very symbol of BREITLING, its innovative spirit and its vocation to create instruments for professionals.

Today, the NAVITIMER has become a legend in its own time, finding its place on the wrist of all those in quest of precision and performance. Around the world, it continues to appeal to men and women seeking authentic objects... such as the special series issued by BREITLING to celebrate the 50 years of flight of this mythical model.



BREITLING
1884

INSTRUMENTS FOR PROFESSIONALS

INFORMATION TECHNOLOGY

ANNUAL REPORT

Main Story.....	84	Services.....	98	Analysts.....	108
Computers.....	92	Semiconductors.....	102	The Info Tech 100.....	112
Software.....	94	Internet.....	104	Private Companies.....	124

THE INFO TECH 100

When we introduced our Info Tech 100 ranking in 1998, the world was a vastly different place. The Internet boom wasn't yet a bust. Telecom stocks were still safe for widows and orphans. And with few exceptions, American companies were leading the charge into the Information Age.

We created the IT 100 to do what no other publication was attempting to do: rank all of the top technology companies in the world based on their performance over the past 12 months. With the help of sister company Standard & Poor's, it meant collecting a dizzying array of financial data from across the globe, translating financial statements from dozens of currencies, and double-checking every figure to make sure Turkish lira hadn't been mixed up with Thai bhat.

This year, the worldwide effort is paying dividends like never before. The balance of power in the technology industry is shifting. No longer are American companies first, foremost, and pretty much only. Rather, the companies of Europe and particularly Asia are thriving, even as the downturn in domestic tech spending has humbled American companies. Non-U.S. players account for 49 spots in the IT 100, far more than in any previous year. There were a mere 23 on our premiere list.

Asian powers are rising impressively. Companies from Taiwan, Korea, and Hong Kong grabbed 7 of the top 10 spots this year. Asian companies have never had more than



The Top 10 Info Tech 100 Companies

- 1 Samsung Electronics
- 2 Quanta Computer
- 3 Hon Hai Precision Industry
- 4 KT Freetel
- 5 Dell Computer
- 6 China Mobile (Hong Kong)
- 7 Affiliated Computer Services
- 8 Elitegroup Computer Systems
- 9 SK Telecom
- 10 L-3 Communications Holdings

Ranked by performance

two top rankings in the past four years. South Korea's Samsung Electronics Co., which makes mobile phones, semiconductors, and consumer electronics, is the No.1 performer anywhere in information technology. Quanta Computer Inc. and Hon Hai Precision Industry Co., Taiwanese companies that make components for personal computers, won the No.2 and No.3 spots.

In part, the rise of Asia is a sign of the times. The Taiwanese companies are super-efficient manufacturers that U.S. companies turn to for outsourcing production when they need to save money. Quanta's revenues have soared this year as Dell Computer Inc. and Apple Computer Inc. have signed it up to make their notebook computers.

It would be wrong to conclude that the Asian tech companies aren't innovating. Samsung has gained ground in the international cellular market with its stylish mobile phones, packed with Web-browsing and text-messaging capabilities. And KT Freetel, a provider of mobile-phone service in Korea, is one of the few to have figured out how to make the mobile Web a must-have.

Four years ago, when we developed the Info Tech 100, we knew it would provide a lens through which to study the evolution of the tech industry. Little did we know how quickly and how much it would change. ■

BusinessWeek online

An interactive ranking of the top 200 IT companies and additional stories can be found at www.businessweek.com.

Making the Tech Slump Pay Off

It's a risky gambit—sometimes fatal, in fact—but stepping on the gas when others hit the brakes can allow a company to overtake its mightiest rivals

A year ago, nearer the start of this deep tech slump, Gary L. Bloom got the surprise of his life. The newly appointed CEO of storage software maker Veritas Software Corp. told analysts during a conference call that, in spite of deteriorating market conditions, he didn't plan on slashing expenses. Instead, he would remain "fully invested" in research and development and sales operations, accepting a temporary decline in profits. Ultimately, he said, the company would be better off for it. Bloom thought investors would applaud. Instead, they dumped Veritas stock like yesterday's lunch, sending the price down 26%, from \$50 to \$37, and cutting its market cap by more than \$5 billion in one day. Today, the stock is

even weaker, trading at \$21.

Bloom regrets the beating his stock has taken, but he vows to stick with his plan. "It's better to take a margin hit and keep your ability to innovate," he says. Indeed, Bloom's moves seem to be paying off. Thanks in part to a spending increase of 36% in R&D last year that funded new storage products, Veritas' revenues grew 24%, to \$1.5 billion, in 2001. Meanwhile, the overall market for storage software grew only 3%. Veritas gained nearly 2 points of market share, solidifying its position as No.2 with a 20% slice, according to Gartner Dataquest. Due to weakening demand, revenues shrank 4% in the first quarter. But Bloom isn't backing off. "We're ready for a better economy. Bring it on!" he says.



**ANNUAL
REPORT**

Bloom may go against the herd on Wall Street, but if history is a guide, his instincts are spot on. With help from sister company Standard & Poor's *BusinessWeek* conducted a detailed analysis of the performance of 2,000 U.S. info-tech companies during the past two downturns. What the analysis found is

that the players that performed the best following the 1985 and 1990 slumps typically turned a deaf ear to Wall Street's urgings to cut costs across the board.

Instead, these companies hit the gas while their competitors were slamming on the brakes. They pioneered the next generation of technology while their competitors cut back on research. They staffed up while others were laying off. They made strategic acquisitions and



Companies that bravely bulked up during the past two recessions re

invested in more efficient factories while rivals conserved their cash. The result: Those that were gutsy turned in impressive stock gains following the slumps. After the 1990-91 slowdown, for example, the top 10 tech companies saw their stocks climb anywhere between 103% and 221% in three years.

Many of those that dared to defy Wall Street are now household names: Microsoft, Apple Computer, Compaq, EMC, and Cisco Systems. They didn't cower when hard times loomed. Instead, they craftily found ways to make the downturns pay off for them. And not just by outspending timid rivals. Some devised strategies and products tailor-made for tougher economic times and cost-conscious buyers. Others fed off the misfortunes of rivals by snapping up distressed companies at fire-sale prices or by buying advertising on the cheap, establishing brands while rival products went unsung. "Great leaders don't manage for the present. They manage for the future," says Dennis C. Carey, a vice-chairman at management consultant Spencer Stuart Inc. "The ones who play defense will be on their own five-yard lines when this thing turns."

Those who played too conservatively in the past paid a steep price. IBM in the early 1990s tried to cling to the status quo by continuing to focus on its expensive mainframe computers rather than birthing new technologies. By 1993, the company was in disarray and searching for a new CEO. "The conventional wisdom is to pull the wagons into a circle and hunker down and try to keep the cash up. But it's a losing strategy," says Larry Downes, co-author of the newly published management book, *The Strategy Machine*.

So which companies will come out of this downturn best-positioned for the upturn? *Busi-*

nessWeek applied the lessons from the past to figure out which companies are best preparing for the future. We pored over the most recent financial statements of today's top tech companies for those that showed characteristics similar to the winners from 1985 and 1990—who spent an average of 8% of sales on R&D, 9% on capital expenditures, and perhaps most surprisingly, 40% of revenues on sales and other overhead.

Sure enough, dozens are pursuing bet-the-farm strategies that paid off after earlier downturns. There are plenty of fresh faces, including Leap Wireless International Inc., a little-known wireless-services operator that last year defied conventional wisdom and more than tripled its sales and marketing spending, to \$115 million. That helped it boost its customer base from 190,000 in 2000 to 1.4 million now. For every new name, however, there is an old one. This time around, the industry's giants are among the aggressors—Microsoft, Intel, and Dell, to name a few.

The giants can afford to play rough when times are tough. With billions in cash, they are rich enough to invest

while weaker rivals are busy surviving. No company has used its financial strength more to its advantage this time around than Dell Computer Corp., which ranks No. 5 on *BusinessWeek's* annual Info Tech 100 list. When the recession began, Dell did a sharp about-face and dropped its prices to become the low-priced PC brand. The goal: to grab market share while others struggled.

It worked. Dell dropped its average prices by 17% last year, gaining 2.5 points of share, according to researcher IDC. What made it all possible was that Dell started off

the recession with the lowest costs in the industry and \$5.4 billion in cash so it could invest in technology and plant upgrades to improve its already efficient supply chain. It was the only PC company that could slash prices and still make money.

Other top-ranked companies in this year's Info Tech 100 have learned from history, too. No. 1 Samsung Electronics Co. of South Korea has continued to invest in its memory-chip business even while competitors bailed out. Samsung figures the strategy will pay off when demand returns and chip prices rise. And No. 8, Taiwan's Elitegroup Computer Systems Co., is rapidly building plants in China in anticipation of a boom in its motherboard business.

Still, even the wealthiest players can spend willy-nilly in a downturn. The winners of the past cleaned house at the first sign of a tech wreck. They quickly brought costs in line with lower demand and overhauled their operations to make them more efficient. Then they blazed new paths. In 1985, Apple Computer Inc. found itself with bloated costs when PC demand shriveled, so it laid off 1,200 workers. Then Apple primed a new market, desktop publishing, by training the sales staffs of hundreds of retailers. Demand returned, and Apple's stock price soared 75% in three years. "In high tech, when you have tough times, it's smart to focus and build," says former Apple CEO John Sculley.

There's no guarantee—especially this time—that using the tactics of the past will produce tomorrow's powerhouses. This downturn is the worst the industry has endured. It's broader than ever before, slamming not only computers, software, and semiconductors but also telecommunications. It's longer and deeper, too. U.S. corporate tech spending has plunged nearly 17% from its peak in the fourth quarter of 2000, according to the Commerce Dept., vs. less than 5% drops in the two previous

Lessons from the past apply today

After examining 200 public U.S. tech companies in the last two downturns, *BusinessWeek* found some common traits among ones that became successes in the following years. Here are the strategies they used and a sampling of companies trying to out now.

SAMSUNG ELECTRONICS

1 Yun Jong Yong, CEO

Yong's decision to keep investing in the memory-chip business paid off when prices began to climb last year: Samsung's market share jumped by 6 percentage points in 2001, to 26.3%. Now, he's marketing aggressively to build his brand. Spending on ads and sponsorships surged 50% last year, to \$870 million.



Aggressive stock gains over the following three-year spans

mps. And now the downturn is dragging through its sixth quarter, exceeding the past two. While a few markets have recovered a smidgen, Goldman, Sachs & Co. doesn't expect a return to 2000 spending levels until 2004.

That means some of the bold lenders may find their investments are either too big or made too early. A

2002. Flextronics' sales rose 6%, to \$3.3 billion, from a year earlier, while Solec-tron's revenues fell 44%, to \$3 billion.

Flextronics did this by using the downturn to transform its business. The company has been shuttering plants scattered across high-cost areas while opening huge factories in less-expensive places such as Southeast Asia. The new

of Issy-les-Moulineaux, France, No. 51 on the Info Tech 100, is trying an end run. It's designing and selling simple, inexpensive kits that contain the guts of mobile phones. Those modules can be popped into mobile-phone shells and sold cheap by outfits in Korea or mainland China. While the strategy was launched in 1997, Wavecom is pressing hard to

CASH AND

Foundation is vital for going in the slow while a scrimp. Shift, which \$3 billion in bought claims the last year, it into the wing the market ill- and h-size ses.

BOOST TECHNOLOGY SPENDING

Don't be stingy with R&D dollars. The breakthroughs they pay for are a way to jump ahead of rivals. Veritas Software upped its R&D spending by 36% in 2001 over the 2000 total. That helped add two points to its share of the storage-management software market.

BUILD OUT NOW

Invest in infrastructure to handle demand when the upturn begins. Taiwan's Elitegroup Computer Systems boosted its capital spending to \$42 million in 2000 and 2001 to build motherboard factories in mainland China. That helped increase revenues 65% last year.

BUY ON THE CHEAP

Make acquisitions to inexpensively expand into new markets and fill in gaps in product offerings while valuations are low. Online auction giant eBay has bought up auction sites in Germany, France, and South Korea—quickly becoming No. 1 in each market.

SPREAD THE WORD

Spend on marketing to gain brand awareness while rates are low and rivals are quiet. Leap Wireless, a local cell-phone operator, tripled marketing expenses in 2000, to \$115 million. That boosted its customer base from 190,000 in 2000 to 1.4 million today.

LAYOFFS MUST COME EARLY

If layoffs are necessary, do them early in the recession so you aren't getting rid of workers just before demand picks up. Those that can afford it, hire. IBM's software unit expanded its sales force by 30%, to 10,000, over the past year—and has market-share gains to show for it.

will pay the ultimate price and go out of business. Already, some companies that were aggressive early on aren't able to keep it up. Take Inktomi Corp., a maker of Internet search and content transmission software. A year ago, CEO David C. Peterschmidt vowed to invest in the future. Last month, after failing to make a single sale of the best video transmission software to ending-averse corporations, he put the text version on ice. "You need to get your R&D down to the essence, where there's clear and present demand today," he says. Still, Peterschmidt figures his roll of the dice will pay off. When the economy improves, he says, Inktomi will again push its video transmission software—ahead of rivals.

Still, downturns can provide the perfect conditions for changing the rules of the game. Lower demand and depressed prices can alter market dynamics overnight. Market leaders can be caught off-balance as boom-time CEOs struggle to figure out what works in a more sober environment. This set the stage for Singapore-based contract manufacturer Flextronics International Ltd. to pull ahead of Solec-tron Corp. as the market leader in the first quarter of

plants cluster Flextronics' assembly lines with the company's components factories and the plants operated by its parts suppliers. Other suppliers store inventories there, too. The cozy setup has helped the company to dramatically improve its efficiency. It increased the number of times it turns over inventory from six to nine last year, while Solec-tron's turns stagnated at four.

At the same time, Flextronics is investing in an even bigger future. It just spent \$26 million on the first phase of a five-year project to build an industrial park in Shanghai. In May, it paid \$364 million for NatSteel Broadway Ltd. to add to its manufacturing operations in China and Hungary. Investors are skittish, having dropped the company's stock from \$30 last year to \$10, but Flextronics vows to stay the course. "This market has the potential of being worth half a trillion dollars in 10 years. We're putting in the systems to handle that growth," says Jim Sacherman, a senior vice-president for Flextronics.

Companies that understand the new cost-conscious customer better than their rivals can also turn bad times into good. Rather than taking cell-phone giant Nokia Corp. straight on, Wavecom

take advantage of a penny-pinching climate now when cheaper phones are in demand. It doubled sales and marketing expenses last year, to \$11 million, partly to expand its presence in Asia. Its moves have paid off: Revenues nearly quintupled last year, to \$283 million, and net income hit \$8.3 million after a \$12.9 million loss in 2000.

The biggest gambit of all, though, is to spend boldly on radical new technologies or manufacturing techniques, not knowing if they'll catch on or even work. Compaq Computer Corp. did just that in 1985. Up until then, Compaq and other PC makers followed IBM's technology lead. But during the slump, Compaq's then-CEO, Rod Canion, rolled the dice. While IBM was building PCs based on Intel Corp.'s 286 microprocessor, Compaq spent heavily to develop PCs using the more powerful 386 chip. When Compaq released its products in the summer of 1986, it was the beginning of the end of IBM's dominance of PCs. Ultimately, Compaq became the largest PC company until the current downturn, when Dell Computer stole its thunder. "The things we did in the '80s moved us to the head of the pack," says Canion.

These days, two of the industry's

IBM PCs use genuine Microsoft Windows
www.microsoft.com/piracy/howtotell

halfway through the fall/winter line

Charles Nolan, Designer, Anne Klein

ThinkPad ■ Where do you do your best thinking?

IBM

Over 900 awards in the last ten years for design and functionality. A TrackPoint® and a touchpad on select models – so you can choose how to navigate.

Intelligent design. It's just one of the reasons why some of the world's most successful people choose ThinkPad® notebook computers. Select models feature a Mobile Intel® Pentium® 4 Processor-M for outstanding performance and mobility. Call

1.877.thinkpad or visit **ibm.com/thinkpad** think



IBM product names are trademarks or registered trademarks of International Business Machines Corporation. Intel, the Intel Inside logo and Pentium are trademarks or registered trademarks of Intel Corporation or its subsidiaries in the United States and other countries. All other company names are trademarks of their respective companies. © 2002 IBM Corp. All rights reserved.

most entrenched players are trying the same tactic: Microsoft and Intel. On the surface, this seems like bewildering behavior from two companies that are rolling in monopoly dough. Why take any big risks when things are so dicey? But Microsoft Corp. Chairman William H. Gates III is a student of what ailed IBM in years past and has vowed never to fall into its trap of complacency. And Intel Corp. Chairman Andrew S. Grove went through the fiery 1985 downturn and made the drastic move of getting out of the memory-chip business—which was to pay sizable dividends.

Microsoft, No. 27 on the Info Tech 100, is pouring gobs of money into complex technologies code-named Longhorn. Microsoft hopes to tackle 10 big initiatives, including the much-ballyhooed but elusive “information agents”—digital servants that might one day do all your computer bidding. To reach such technical zeniths, the software giant is investing a staggering 17% of revenues in R&D. “If we’re right, we’ll emerge stronger,” says CEO Steven A. Ballmer.

Intel has the same idea. The chipmaker, No. 56 on the Info Tech 100, has been battered by falling demand and prices. On June 6, it warned of lower revenues, marking six quarters of depressed results. Yet the 34-year-old chipmaker remains undaunted. Intel is investing in three manufacturing techniques that could ultimately lower the company’s costs. Last year, during the worst of the downturn, Intel spent \$7.3 billion on new plants and equipment, up from \$6.6 billion in boom times. Now, six new chip plants with the latest manufacturing technology are nearly finished. Once they’re humming, Intel will be able to churn out chips at a lower cost than most competitors.

To get an even quicker payday, some companies are snatching underval-

Top Performers after the 1985 Slump

RANK	THREE-YEAR STOCK PRICE GROWTH	COMPANY	BUSINESS
1	75%	Apple Computer	Personal computers
2	70	Sungard Data Systems	Record-keeping software
3	68	Autodesk	Product-design software
4	66	Compaq Computer	Personal computers
5	62	Novell	Networking software
6	58	Tenera	Government software
7	56	Computer Associates	Mainframe software
8	56	Interphase	Telecom equipment
9	51	Symbol Technologies	Wireless telecom equipment
10	45	American Mgmt. Systems	Info-tech consulting

Data: Standard & Poor's

ued businesses. Many tech stocks have dropped 50% or more during the past two years. Those who acquire now—when there’s scant competition from other buyers—can come away with bargains. Online auction giant eBay Inc., No. 83 on *BusinessWeek*’s list, has bought up auction sites in Germany, France, and Korea, quickly landing the top ranking in each country. For just \$133 million, it bought French auctioneer iBazar last May, gaining a presence in France, Italy, and Spain. EBay’s dominance in Europe last month forced Yahoo! Inc. to shut down its European auction sites.

Downturns can even provide the opportunity to make wrenching changes

new software and services so it won’t be as reliant on the cutthroat storage hardware business. Gross margins on hardware plummeted from a peak of 60% to about 25% now, while the storage software EMC is working on will carry margins close to 85%. The cost-cutting will help EMC keep R&D spending at about \$200 million a quarter. “We’re saying we’re going to do this kind of spending, continuing to lead and innovate to make sure we come out with the innovations first,” says Chief Executive Joseph M. Tucci.

To keep his people focused, Tucci literally has executives walking on hot coals. During a May 29 off-site meeting at The International Golf Club in

Bolton, Mass., he challenged his 160 top managers to fire-walk with him. Everyone traversed the 15-foot path of glowing embers without injury.

In the dark days of this technology slump, it’s worth remembering the lessons of 1985 and 1990. For those with the money and the gumption, this is a rare opportunity to race ahead of the competition. In some ways, it’s like fire-walking. Trust your instincts—and don’t slow down.

By Steve Hamm in New York, with Faith Keenan in Boston, Andy Reinhardt in Paris, and bureau reports

Top Performers after the 1990 Slump

RANK	THREE-YEAR STOCK PRICE GROWTH	COMPANY	BUSINESS
1	221%	Three-Five Systems	Liquid-crystal displays
2	151	Informix	Database software
3	142	Andrea Electronics	Telecom equipment
4	141	TeraForce Technology	DSP chips
5	141	HEI	Electronic components
6	130	National TechTeam	Help-desk services
7	129	EMC	Data-storage systems
8	125	Cerner	Health-care technology
9	124	Cisco Systems	Networking equipment
10	103	Nu Horizons Electronics	Chip distributor

Data: Standard & Poor's



**At Mizuno USA,
reading greens was
just part of the job.**

**Unfortunately, so was reading
300-page sales reports.**

As part of the World's most intelligent good-looking business, Mizuno USA was once into a lot of paper every year. The IT Department generated 300-page monthly sales reports. Reports that were out of date even before they were delivered. They knew **ANYONE** COULD FIND **ANY** Cognos. The golden secret to business intelligence.

With Cognos, Mizuno USA was on all the smartest business intelligence applications first. Their customers were reading reports from Cognos long before most other business intelligence applications. They saw sales increasing, customer sales and marketing first results. To give them a real look at their business, all business intelligence customers and their business partners, and a lot less paper. The results of using **ANY** COULD FIND **ANY** Cognos. Their customers were reading reports first. Reading the industry leader to take a real business look off its game.

**Cognos—the business intelligence inside
the world's most intelligent businesses.**

Learn more about Cognos and business intelligence. Download your free copy of **ANY** COULD FIND **ANY** Cognos. And winning with business intelligence.

COGNOS®
www.cognos.com/win

Who Will Master The Server Biz?

The same combination of off-the-shelf parts and ruthless efficiency that vaulted Dell to the top in PCs is helping it grab share in the more lucrative server market, collapsing profit margins for everyone. Here's how rivals are fighting back

Last year, Compaq Computer Corp. put its sales force and network of dealers on notice: Stop losing server sales to Dell Computer Corp. For too long, pesky Dell had used cutthroat prices to woo customers and gain market share. For a while, Compaq hadn't dared drop its prices, fearing a hit to profits. But by March, 2001, Compaq executives had had enough. They decided to free their salespeople and dealers to meet Dell's prices on the spot.

That did the trick. By the first quarter of this year, Compaq was gaining market share again, adding a half-point, to reach 26% of the server business, after two straight years of losing ground to Dell. The problem, though, was that the move did just what managers feared: Enterprise Computing group revenue, which includes server and storage devices, fell 19%, and profits were down 86%. Now, Compaq is counting on the \$19 billion merger with Hewlett-Packard Co. to give it the purchasing power and production efficiencies to stop Dell.

The issue is simple economics. The same combination of off-the-shelf parts and ruthless efficiency that vaulted Dell ahead of bigger rivals in the PC business is now helping it grab share in the more lucrative server market. That, in turn, is putting the squeeze on rival computer makers, who are struggling to hang on to their customers and their profit margins. The combination lifted Dell to No. 5 on *BusinessWeek's* Info Tech 100, while Compaq, Sun Microsystems, and Gateway were no-shows.

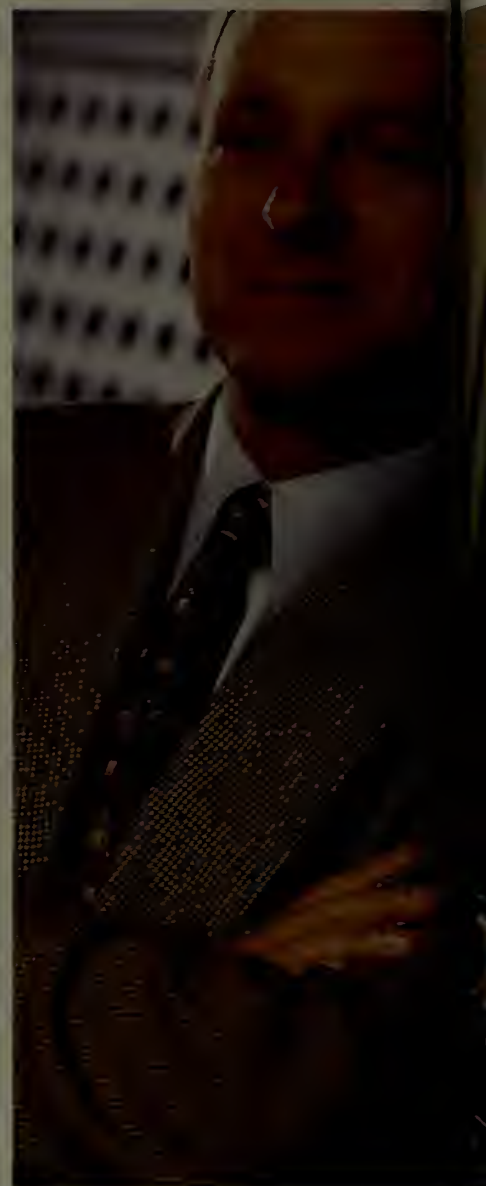
Dell is basking in the moment. Last year, the company's server unit sales grew 27% and revenues stayed flat, while industrywide shipments fell 2.3% and revenues plunged 19.7%, to \$55.6 billion. In the first quarter, Dell continued its assault on the low end of the server market, gaining nearly two more points of share. It now lays claim to 20% of the market, second only to HP and Compaq's combined 35%, according to researcher IDC.

That has top server makers scrambling to lower their costs, boost efficiency, and offer customers less expensive choices. HP (No. 99) has lowered costs by outsourcing 35% of server manufacturing to Taiwan-based Inventec Corp. (No. 68), and boosted direct sales to one-third of its total. That's helped increase HP's annual inventory turns to 43—still a far cry from Dell's 90-plus. Last month, IBM (No. 21) cut 1,000 workers in its server unit to slash costs. Even Sun is developing inexpensive servers

built around Intel Corp. chips and Linux software instead of the proprietary technology that goes into its brawny boxes costing hundreds of thousands of dollars. "Dell has really forced the low-cost issue," says analyst Mark Melenovsky of researcher IDC.

Computer makers may have to make even more radical changes. Despite its improved efficiency, HP's operating expenses are still 21% of revenue, twice Dell's 9.9%. IBM carries a 23% load. And in the third quarter, ended Mar. 31, Sun's expenses ballooned to 47%.

**THE
INFO
TECH
100
ANNUAL
REPORT**



Rivals' higher costs will continue to give Dell freedom to slash prices and steal market share. "The other companies will lose money if they price to Dell," says analyst Brooks L. Gray of researcher Technology Business Research.

What to do? Demand is too high in the low-end server market for computer makers to leave it to Dell. Sales of Inte-

Dealing with The Dell Effect

To compete with Dell's ability to cut prices to the bone and still make a profit, rivals are seeking any edge they can find.

HEWLETT-PACKARD

Merging with Compaq makes HP No. 1 in low-end servers, allowing it to buy in huge volume with operating expenses at twice 9.9% rate, HP cut costs more, risk being blood another price w



DELL

5 Randall Groves, V-P, Enterprise Systems

Dell is basking in the moment. Last year, its server unit sales grew 27% and revenues stayed flat, while industrywide shipments fell 2.3% and revenues plunged 19.7%. In the first quarter, Dell gained two more points of share. It now has nearly 22% of the market. Combined, HP and Compaq have 35%.

systems. Even buyers that shun Windows can now buy cheap servers running Linux, the free operating system popular with techies.

Just ask Joseph Overocker. The director of technology for Nando Media, which runs Internet news sites and portals for newspapers, started looking into switching his data center from 50 Sun Unix servers to Dell's Linux machines about 18 months ago. With Dell, he wouldn't have to pay extra for support, as he did with Sun, because the Intel machines come with standard warranties instead of expensive maintenance contracts. And for the same level of performance from the Sun gear, he would pay one-half to one-third as much. Overocker took \$1 mil-

lion budgeted to upgrade his Sun gear and instead bought 100 Dell machines. "It's a cheaper way to go," he says.

Now, Sun is changing its ways. After years of deriding low-end Windows servers as an unworthy competitor to its powerful Unix boxes, Sun has discovered that it can't afford to lose more customers such as Overocker. The company already saw server sales fall 27% in its third quarter, to \$1.5 billion, according to Banc of America Securities. Now it's planning to release new, low-cost Linux servers this summer. Sun's success will depend, in part, on its ability to manage expenses. It's trying to reduce component costs by using fewer custom parts. It's also thinking of adding overseas outfits to its U.S. suppliers as sources for the chips that run its servers. That should help it deliver on a promise to return to profitability

in the quarter ending June 30.

For all the cost-cutting, computer makers aren't giving up on innovation. IBM and Compaq have invested millions of dollars in sophisticated software that allows low-end servers to be managed remotely via the Internet, including ways to load software, repair bugs, and run maintenance. For customers with hundreds of small servers running at the same time, that's becoming a must. Dell has developed its own software to manage servers but can claim only some of the capabilities the others offer, concedes Randall D. Groves,

Dell's vice-president for enterprise systems. At the same time, IBM has been working on the development of chip technology for Intel servers that will be key for customers who need to consolidate the chores of scores of small servers onto a few more robust ones. Dell has to wait for Intel to develop the same technology, which isn't expected out until later this year. "IBM has invested. Dell hasn't," says Susan Whitney, general manager of IBM's Intel server group.

Staying ahead means jumping into new markets before Dell does. Take so-called blade servers, machines that use less power and take up less space. They're only a few inches thick and can be packed 300 servers at a time in one rack, compared with the usual 6 to 12. HP and Compaq lead rivals in this nascent market. Dell didn't have the expertise in house to develop the sophisticated software needed to manage these machines and has had to license the technology from Sunnyvale (Calif.) upstart Jareva Technologies Inc. Dell's blade servers won't hit the market until the third quarter.

What's appealing to customers about blades, says HP's Intel server honcho, Mary T. McDowell, is the software that can configure the hardware according to their needs. Want to dedicate more computing power to handle Web traffic and less to payroll? Just reprogram the machine. Ultimately, McDowell says, it's the software that corporate customers will pay for, not hardware. "We're positioning ourselves for the long term, when hardware is free," she says. "Dell can't live on free hardware."

Maybe not. But neither can HP and other computer makers—at least, not yet. And given Dell's track record of sneaking up on the competition, they had better not count it out of the server market.

*By Andrew Park in Dallas, with
Spencer E. Ante in New York*

SUN MICROSYSTEMS

After sales of high-end servers tanked in '01, Sun began developing cheaper boxes that run the free Linux operating system. Those low-end boxes will squeeze Sun's hefty 42% gross profit margins, but they might keep customers from defecting to Dell.

ervers that run Microsoft Corp.'s Windows operating system are expected to grow 11% this year, vs. 6% for Unix servers, according to IDC. Once thought too flimsy to handle anything more than small office networks and e-mail systems, these low-end Windows servers are moving uptown to power big corporate databases and critical back-office

an army of
tants and is
ng on a way to
servers heal
selves—pluses
oesn't have. Big
s also offering
e-digit dis-
s against Dell
making it up on
of high-end
s and services.

Information Is Power

With business intelligence software, executives can see in a flash what all the sales data mean—then quickly take steps that can lure customers, improve service, and maximize profits



Get Smart

Business Intelligence software lets companies navigate the oceans of data in their computer systems to better track their operations and ward off problems. Here are ways the software helps:

DATA ANALYSIS

After September 11, Las Vegas was empty because customers weren't flying. Harrah's dug into its data with BI software, found gamblers within driving distance, then sent special offers. Within two weeks, its hotels were full again.

REPORTING

British Airways used BI software to analyze complaints about lost luggage and found it needed to better advise customers on minimum transfer times so handlers could get their baggage onto connecting flights.

DATA WAREHOUSING

Toyota is using BI software to bring its financial, parts, and production data into a central location. With the info easily accessible, the carmaker now takes just a week to close its books at the end of each quarter down from a month.

Until last year, Mike Cripe sold prices at his three Ace Hardware stores near Chicago. He sold wheelbarrows for instance, at \$80 apiece more than a 100% mark over their \$39 wholesale cost. Then last May, Ace corporate headquarters started issuing pricing recommendations to store owners. Among the suggestions: Drop the wheelbarrows to \$50. In the four months after the launch of the new pricing plan, Cripe sold eight wheelbarrows compared with two in the preceding months. "I made as much in four months on them as I did in a year before," Cripe marvels.

The key to this insight? Business intelligence software. BI programs help managers make smart decisions by extracting information from computer systems, running it through sophisticated math formulas, and delivering it in simple-to-understand reports. Ace Hardware uses software from Informatica Corp. to analyze price and sales data from its own stores and from competitors. The goal: Calculate prices that will keep customers coming into Ace outlets and buying everything from hammers to light bulbs, while maximizing profits for local store owners. For Cripe, the result has been better margins—up to 39%, from 32%. "With the data we're collecting, we can go back to the stores and say 'Here's the money you're leaving on the table,'" says Mark Cothron, information technology manager at Ace headquarters in Oak Brook, Ill.

Success like that has kept BI programs moving off the shelf even as the software industry stalls. Last year, the BI market grew 2.2%, to \$3.8 billion, according to researcher IDC. That may not sound like much, but it's better than the flat revenues for software in general. This year, IDC expects sales of BI programs to rise by 9%, to \$4.2 billion while the software industry as a whole will grow by 7.7%. BI is "the best soft-

THE
INFO
TECH
100

ANNUAL
REPORT



With Avaya, you're already this close to IP Telephony.

In fact, as the leader in voice solutions, Avaya can give you Enterprise Class IP Solutions now. By merging voice and data into one network, you cut costs while enabling employees to stay in touch with clients and colleagues, utilizing multimedia communications seamlessly — anywhere, anytime. And our MultiVantage™ Software utilizes an open architecture, which allows integration with your existing systems and business processes. So you can extend the benefits of IP Telephony at your own pace, however it makes sense for your company. See how close you are to IP Telephony at avaya.com/yes

AVAYA

COMMUNICATION WITHOUT BOUNDARIES

SOFTWARE

ware market out there," says analyst Mark Murphy of First Albany Corp.'s Equity Capital Markets group.

Those numbers have set off a scramble for market dominance. France's Business Objects, privately held SAS Institute, and Cognos of Ottawa are neck-and-neck for the lead in BI programs, with market share of just under 10% each, says IDC. Business Objects' sales will grow by nearly 14%, to \$415 million, this year, predicts Murphy. And Cognos forecasts a 10% increase in revenues, to \$540 million, for the year ending in March. Some smaller niche players are doing just as well, including Fair Isaac & Co., the maker of software that "scores" the creditworthiness of consumers.

BI players are prospering because they help their customers do a simple but vital task: Make better sense of the information they already have in their computers, and present it in a way that anyone from sales reps to chief executives can grasp. For years, companies have been using software to collect oceans of data. But navigating those seas has been tricky because data are stored on different types of computers, running various kinds of software.

Coty Inc. in New York is a case in point. With more than a dozen different computer systems, Coty's managers had a tough time seeing and understanding all the sales data they were gathering. Coty focused efforts on its core business of makeup, devoting scant resources to toiletries such as shampoo and shaving cream. After analyzing sales data, using BI software from Hyperion Solutions Corp., execs realized they had missed potential profits. "Not only was [the toiletries sector] profitable, but it was better than a lot of other businesses" such as certain makeup lines, says Jim Shiah, senior vice-president. Now, Coty is beefing up R&D in toiletries and expects to offer a broader range of products this year.

Another advantage of BI software: It's relatively inexpensive and can pay off quickly. Programs for generating sales reports and forecasts for a small business or department can cost just \$10,000. The top end runs into the millions, but such projects can generate a quick return. Coty sees its \$1.8 million investment paying off in two years.

The growth in BI hasn't escaped the attention of the big enterprise-application companies. Last fall, Siebel Systems Inc., a maker of customer-management software, bought tiny nQuire

Software Inc. The reason: Siebel Systems wants to bake better analytic capabilities into its customer-management programs. Likewise, database giant Oracle Corp. and enterprise software maker SAP AG are putting BI capabilities into their applications.

The little companies say that won't slow their success. Business Objects points out that its programs aren't wed-

ded to any one software package, the way Oracle's are with its own database software. Industry heavyweights "cannot claim to be able to work with data as well as we can," says C. Bernard Liautaud. And until the guys can learn to do that, fortune will likely shine on the upstarts.

By Jim Kerstetter
in San Mateo, Ca

'A Fairly Successful Bunch Of Propeller Heads'

Fair, Isaac & Co. may be the most important enterprise you've never heard of. If you've ever applied for a mortgage or credit card, though, your name probably passed through its databases. The company "scores" consumers' credit 14 billion times a year, a business it so dominates that its acronym, FICO, is shorthand for credit evaluations.



KNOWING THE "SCORE": Grudnowski's company does 14 billion credit evaluations a year

At the core of Fair Isaac's service is its business intelligence software, which sorts through credit-card debts, mortgage information, and car payment history to determine a consumer's ability—and willingness—to pay back loans. Its customers are credit rating agencies, banks, and other consumer-oriented businesses. As applications for mortgages have soared and lenders have become

edgier about risks, Fair Isaac's business has grown. For its fiscal year, which ends Sept. 30, analysts expect revenues will rise 12%, to about \$3 million, while net income will climb 20%, to \$55 million. "We're a bunch of propeller heads. But I think we're a fairly successful bunch of propeller heads," says CEO Thomas Grudnowski.

The company, a late bloomer that could well make future Info Tech 100 lists, was formed in 1956 in San Rafael, Calif., by engineer William Fair and mathematician Earl Isaac. The idea was to apply math formulas to business forecasting. They started rating consumer's credit worthiness 15 years later.

The next big step: to for fraud management what Fair Isaac has done for credit risk. On Apr. 2, Fair Isaac announced plans to pay \$810 million for HNC Software Inc., a San Diego maker of fraud detection programs, which uses analysis of past behavior patterns to alert

companies to new customers who are apt to rip them off.

Fair Isaac is reaching out directly to consumers, too. Last year, it launched a Web site, myFICO.com, that for \$12.95 lets consumers see their own credit scores. People may not like what they see, but at least they won't be surprised if they apply for a loan and get bad news.

By Jim Kerstetter

Meet Dr. Dan. Pediatric Wizard.
King of Online Diagnostics.

And a Textbook Case for Secure VPN.

You might think it would be easy for a wizard to be in several places at once. But Dr. Dan is only human. So when a hospital system wanted to enable him and 9,000 other staffers in three states to share information such as MRI and X-ray results instantly, they turned to secure VPN technology from Nortel Networks™. By combining its IP VPN network with services from its local service provider, Dr. Dan's hospital provides remote connectivity to its entire staff over a high-speed optical backbone. The information is protected by state-of-the-art encryption and firewalls to guard against security breaches. All without the expense of a dedicated wide-area network. So now, Dr. Dan and his colleagues can share diagnostic information privately anywhere in the system – making the most of the hospital's network investment with secure technology. Which is just one more way Nortel Networks is making the Internet what you need it to be. To learn more about network security, visit nortelnetworks.com/security.



SERVICES

The Deal Drought

Tech-service providers aren't signing many new contracts, and the ones in hand are being renegotiated and pared down

Like so many tech outsourcing deals, the transaction looked great on paper. On Mar. 28, 2001, IBM put out a press release trumpeting a five-year, \$112 million deal to handle all the computing needs of NeTune Communications, a Culver City (Calif.) startup that digitizes the production process for movie and TV studios. NeTune turned over everything to IBM, from running its computers that transfer digital images at high speeds to provid-

ing round-the-clock support to its PCs.

No press release went out when NeTune renegotiated its contract less than a year later. Battered by the threat of an entertainment-industry strike, the September 11 attacks, and Hollywood's slow adoption of digital technology, NeTune cut back its business with IBM. Now, NeTune manages its own computers and uses IBM for just a few things, such as software maintenance. The value of the deal? "It's under \$10 million," says Patrick Block, NeTune's chief technology officer.

NeTune isn't the only customer rethinking its needs. The sluggish economy is causing scores of companies to shrink their service deals or bring com-

puter operations back in-house. Sprint, Nortel Networks, and Ames Department Stores are just a few that have recently reworked arrangements. The problem is becoming so acute that IBM Global Services head Doug T. Elwood voiced his concerns in an Apr. 22 e-mail to employees that was obtained by *BusinessWeek*: "Many of our existing customers have been restructuring the contracts with us to help bring the overall spending down, which offsets our ability to generate growth from new business," he wrote. Indeed, IBM's service revenues fell 3% in the first quarter, after a 1.4% drop in the fourth quarter—the first back-to-back drop for the group.

The sudden wave of contract restructuring has become the service industry's version of a nasty termite problem: a largely hidden force eating away at its foundation of sales growth and profit margins. TPI, which advises clients on outsourcing deals, says 30% to 35% of its business last year came from helping clients rework contracts, up from 15% to 20% before the tech downturn. For the service industry, contract rollbacks are just the latest blow. Players have been struggling for more than a year now to land new deals. Even when new contracts close, they are inked only after 18 months of grueling negotiation vs. 3 to 6 months before the slump.

Tech-services companies may have more troubles ahead. Several of them appear to be in violation of financial regulations. The Securities & Exchange Commission requires companies to disclose the size and any material change in their contract backlog in their annual 10-K filings. But a survey by *BusinessWeek* turned up few disclosures. In their most recent filings, Electronic Data Systems, Computer Sciences, and Accenture do not include their contract backlogs, even though some have disclosed the figure during their earnings call and in press releases. EDS Chairman Richard H. Brown, for example, bragged in the company's 2001 annual report that "our backlog was greater than four times current year revenue." The SEC says the regulation is designed to give investors more information, but it declined to comment on specific possible violations. EDS' Brown declined to comment on the SEC rule.

Service companies insist they are in compliance. Spokespeople for EDS, CSC and Accenture say the rule applies only to products, not services, and pertains to "firm" orders. Contract backlogs, the

**THE INFO
TECH
100
ANNUAL
REPORT**

Number One in Customer Satisfaction. Lanier.



Call 800-708-7088 or visit lanier.com to find out why J.D. Power and Associates ranked Lanier "#1 Black and White Copier/Multifunction Product in Customer Satisfaction among Business Users". You'll also get a FREE DOCutivity® analysis of your company's document workflow. Find out how satisfying document management can actually be.


LANIER
A R I C O H C O M P A N Y

J.D. Power and Associates 2002 Copier Satisfaction Study.™ Study based on responses from 1,470 business users of copiers and multifunction products. Multifunction products are copier-based devices that include print, scan and/or fax functionality. www.jdpower.com ©2002 Lanier Worldwide, Inc. All rights reserved.

SERVICES

argue, are never firm. But Lynn E. Turner, former chief accountant of the SEC and an accounting professor at Colorado State University, says SEC regulation S-K, Item 101, clearly requires companies to report product or services backlogs. He also disputes the contention that service contracts are not firm. Companies often put out press releases with contract values, he says, and have to invest millions to get the deals up and running. "It is somewhat disingenuous to say in press releases that you have been awarded large contracts but claim for SEC filing purposes [that] those contracts have uncertainties in them," he says.

Industry leader IBM discloses backlog data in its financial filings. But the company may run afoul of the SEC rule anyway. The Elix e-mail expresses management's concern about contract restructurings, but IBM doesn't mention the issue in its 10-K.

Says Turner: If companies "are not disclosing events or changes that are having a material effect on their operations, then they are subject to sanction by the SEC." Elix says IBM follows the SEC rules. He says Big Blue doesn't disclose contract renegotiations because "it's not part of the standard [information] we cover in our quarterly releases."

Not every services player is feeling the pain of shrinking contracts. Consider the roster of companies on *BusinessWeek's* Info Tech 100 list. There are 21 tech-services companies, up from eight last year. The new members are smaller outfits zeroing in on outsource

opportunities in niche markets. It's not flashy work, but it's fast-growing and lucrative. First Data (No. 50), Affiliated Computer Services (No. 7), and Certegy (No. 26) are rising stars that handle a range of chores from payment processing to managing human resources. This year, Lehman Brothers Inc. expects Affiliated's revenues to grow 49%, to \$3.07 billion, as it manages call centers and payroll and transaction-processing jobs for companies and the government.

The incumbents on our IT 100 list—giant contractors that provide a wide range of tech services—still dominate the business. However, unless they sign a lot of new deals before yearend, these ti-

ePeopleServe, a joint venture with Group PLC that will assume management of human-resource department for clients.

When business is nailed, it's likely to be at a lower rate. Take General Motors Corp., which is now renewing up to 40% of its business with EDS, say analysts. GM Chief Technology Officer Tony Scanga says he expects to get better prices for some services. "We're going to the market now and saying 'Look guys, we need to have some cost containment.'"

The upshot of all these changes is increased bargaining power for customers. Rather than fixed-price contracts, customers are increasingly demanding de-

Adding to the industry's woes, several large firms appear to be in violation of SEC disclosure rules

tans are headed for even tougher times. The problem is that companies such as IBM (No. 21), EDS (No. 11), and Computer Sciences (No. 28) are finding that new business is taking longer to close. In the most recent quarter, Electronic Data Systems Corp. said it couldn't close \$126 million, or 3% of additional revenue growth, due to signing delays.

To make up for the sales shortfall, the tech-services giants are borrowing a page from the upstarts: They, too, are trying to take over business tasks such as customer service by beefing up their own practices or forming joint ventures. In September, 2000, Accenture formed

that allow them to pay for services as savings are delivered. Earlier this year when Washington Mutual Inc. renegotiated a deal with IBM, a key demand was that it be released from its exclusive contract. "We're trying to increase the level of accountability," says Jeremy Gross, Washington Mutual's chief information officer, who is talking with several outsourcers.

It's a brutal world for tech-services providers—one where contract renegotiations may continue to gnaw away at the industry's financial health.

By Spencer E. Ante in New York with Andrew Park in Dallas

Backlog Backlash

The growth rate of technology-services firms is closely tied to the health of their contract backlog. But many deals are being pared back through renegotiations, which could dampen the outlook for services companies. Here's a sample:

ORIGINAL CONTRACT	IBM	CAP GEMINI ERNST & YOUNG	IBM	COMPUTER SCIENCES
	On Mar. 28, 2001, digital film startup NeTune Communications, signed a five-year, \$112 million contract with IBM to handle its technology needs.	In the winter of 2000, Sprint signed a six-year, \$600 million outsourcing deal with Cap Gemini Ernst & Young for the development and maintenance of its software applications.	On June 10, 1999, Ames Department Stores agreed to a \$112 million, five-year contract to outsource all computer and network operations to IBM.	On Aug. 2, 2000, Nortel Networks signed a seven-year, \$3 billion deal with Computer Sciences to manage its data center, applications, and PC support.
NEW DEAL	By last December, NeTune was forced to rework its deal due to slowing growth. Now, IBM is managing just a handful of tasks, and the deal is worth less than \$10 million.	Last fall, Sprint reworked the contract and cut the number of people from 500 to 190 that are devoted to Sprint's software. Now, the deal is worth about \$200 million.	In Chapter 11 since August, 2001, Ames has closed 148, or 31%, of its stores. The outsourcing costs of its renegotiated contract have been "reduced proportionately."	Last summer, Nortel reworked its contract. With 42,000 workers, down from 95,000 in 2000, Nortel needs less help. Analysts say the deal's annual revenue has been halved.

INSPIRATION HIGHWAY



Imagine a world with no traffic jams. Hitachi did, and that's what we're in the process of building as part of the ITS (Intelligent Transport System). When completed, the system will route and control traffic flow to make road congestion a thing of the past. It's the same inspired thinking that drives us to design advanced, reliable Storage Area Networks (SAN). These control information for faster and safer data transmission. Smoother, quicker, easier: just some of the thoughts that inspire Hitachi in improving the quality of life. Visit Hitachi on the web and see how we're inspiring the next with our advanced technologies and innovative solutions.

HITACHI
Inspire the Next

<http://global.hitachi.com/inspire/>

Smaller Chips, Bigger Costs

The soaring prices of the latest technology is forcing more chipmakers to outsource their manufacturing

Over the years, chipmakers have become experts at preparing for rainy days. In the notoriously cyclical boom-to-bust semiconductor industry, storms are a given. Nevertheless, few expected the torrential weather they're enduring right now. Sales have tanked, inventories are rising, and chip prices are plunging. Meanwhile, companies are grappling with how much they must invest in new technologies aimed at reinining runaway manufacturing costs. Taken together, "this is the perfect storm," says Ashok K. Sinha, senior

vice-president at equipment maker Applied Materials Inc.

Sounds melodramatic. But when the skies finally clear, expect to see an industry transformed. The key will be lowering costs. The most advanced chips are smaller than ever before, squeezing millions of transistors, each less than $\frac{1}{10,000}$ the width of a human hair, into a space smaller than a thumbnail. The new chips also pack twice the power of older generations, while costing 30% less to make. Companies hope to save even more by producing chips off 12-in. silicon wafers, which offer 240% more area than older 8-in. wafers. And, for the first time, companies such as Intel, No. 56 on the Info Tech 100, Texas Instruments, and Advanced Micro Devices are using copper wiring, instead of aluminum, to keep the chips from overheating while

helping speed up their function.

The payoff is big: One new factory can do the work of 2.3 older plants. On a per-chip basis, the new technology reduces expenses "back to where you were 10 years ago," says Andy D. Bryant, chief financial officer at Intel Corp.

Sounds good. But those efficiencies don't come cheap. The cost of a chip plant has soared above \$2 billion—20 times the \$100 million investment required just 12 years ago. Add to that the cost of researching new technologies, which analysts estimate at \$1 billion, and you're talking more than many chipmakers can afford—save Intel, IBM (No. 21), and TI. That puts a damper on the prospects for smaller rivals. "We don't make as much in revenue as Intel spends every year on R&D," says Hector de J. Ruiz, CEO of Advanced Micro Devices Inc.

**THE
INFO
TECH
100
ANNUAL
REPORT**

In hopes of remaining competitive, one route many are taking is outsourcing manufacturing. Since 1987, the foundation business has helped small, specialty chipmakers, such as graphics-chip company ATI Technologies Inc., defray production costs. Such foundries as Taiwan Semiconductor Manufacturing Co. (No. 22)

United Microelectronics Corp. invest in the latest technologies, then contract with chip suppliers, which buy time on their manufacturing lines. Motorola Inc. (No. 95), for instance, is shuttering 10 of its 18 plants and expects 25% of its manufacturing to be outsourced by year end.

The tricky part is deciding just how much of the business should be offloaded. Avoiding the cost of cutting-edge

FABULOUS PRICES:
At \$2 billion each, fabs run 20 times their 1990 cost

technologies provides short-term gains, says Thomas J. Engibous, CEO of Texas Instruments Inc. In the long term, though, that strategy could hasten "fade into irrelevance," he argues. Engibous is investing in advanced technology for new chip plants. To help stem costs, he also plans to boost outsourcing to as much as 20% of TI's total manufacturing in the next few years, up from 10% today. And when demand is at its peak, TI will farm out as much as half the production of its advanced processors for cell phones and other electronics.

Other chipmakers are grappling with the same decision. Those that make the wrong choice could drown as a tidal wave of technological change sweeps over the industry.

*By Cliff Edwards
Santa Clara, Calif.*



ATTENTION CEOs:

YOU PUT YOUR INTEGRITY
ON THE LINE EVERY DAY.

HOW CONFIDENT ARE YOU
WITH THE INTEGRITY OF
YOUR NUMBERS?

Hyperion business performance management solutions provide you with confidence that the numbers you see are a true reflection of what's happening in your company. So you can accurately predict and assess corporate performance by product, customer, region, employee or other key performance indicators. So you can plan your next move. And so you can provide timely and accurate reporting to your board and the financial community.

80% of the Fortune 100 rely on Hyperion to help them measure performance and drive profitability. So should you.

Get confident. Get Hyperion.

Hyperion Solutions Corporation. All rights reserved.



Hyperion

www.hyperion.com

Finally, the Pot of Gold

Profits arrive for dot-com survivors with critical mass and products that need shipping only in cyberspace

Ever since Internet stocks began cratering two years ago, investors have been making mental lists of ideas they shouldn't believe in anymore: selling goods for less than they cost, for example, or companies with \$2 million in sales being worth \$2 billion.

But the most important Internet idea of all may be due for revisiting. As it turns out, Web companies can make money—a lot of money—once they get big enough. At least 52 of the roughly 200 public Internet companies that survived the shakeout of the past two years are profitable now under standard accounting rules, and 15 to 20 more are likely to become so by next year. Not so long ago, only online auctioneer eBay Inc. and a few software and consulting firms helping dreamers build e-stores saw black ink. Now, there are money-making Internet companies in

travel, finance, and a host of other industries.

Four Web companies made this year's ranking of the Info Tech 100: search engine Overture Services (No. 73), auctioneer eBay (83), discount-hotel broker Hotels.com (86), and travel site Expedia (87). That's up from a measly one last year. And all of them are making money.

The leaders of the Web pack are starting to show that once they turn profitable, they can quickly become big moneymakers. The reason is operating leverage. That's accounting-speak for a simple concept: Once you invest enough to build a Web site and your basic operations, you don't need to spend much money as sales rise. After you cover your fixed costs, the expense of processing each sale is so little that profits grow faster than revenues. That philosophy made for big Internet losses

early on—but the payoff is at hand.

Online travel agency Expedia Inc. is a textbook example of leverage in action. In 2002's first quarter, Expedia doubled its sales, to \$116 million. Yet its overhead, including administrative and marketing costs, rose only 8%, to \$63 million. One big reason is that the company already had paid for the computing gear it needed to handle the higher volume of ticket sales. "Marketing, engineering, and people—all of the scales really nicely," says Expedia CEO Richard Barton. Expedia reported ne

THE INFO TECH 100 ANNUAL REPORT

Internet Veterans Are Starting To Cash In

After more than a few bumps, Web companies are turning profitable. Once they're in the black, earnings can rise quickly because each extra sale requires little new spending.

73 OVERTURE SERVICES

The search engine's first-quarter revenues jumped 175%, to \$143 million, while expenses rose 93%. Result: First-quarter profits of \$29.3 million, vs. a \$6.7 million loss a year earlier.

83 EBAY

The auction site shows that operating leverage can rise even after a company is big. First-quarter sales were up 59%, to \$245 million, as costs rose just 39%. Result: Profits jumped to \$47.6 million, from \$21.1 million a year ago.

86 HOTELS.COM

The hotel-reservation site boosted first-quarter sales 57%, to \$165 million, while profits jumped sevenfold, to \$12.9 million. The company expects earnings of about \$60 million for the year.

87 EXPEDIA

The travel site's first-quarter sales climbed 103%, to \$116 million, while expenses were up 8%. That helped the company make a \$5.7 million profit, vs. a \$20 million loss a year ago.



TODAY

Support innovative family literacy program

TOMORROW

Publish more success stories

TOYOTA



Sometimes it takes a great idea to give power to good intentions. We think the National Center for Family Literacy is a great idea, and that's why Toyota is proud to be one of its major supporters.

NCFL is the leader in parent-child learning. It's a powerful way to develop learning skills in young children by helping disadvantaged parents complete their own education and learn important life skills at the same time.

Toyota has provided support to more than 150 family literacy programs across America. By supporting NCFL, we hope that the book on missed opportunities will one day be closed forever.

To learn more about the great work of NCFL, visit www.famlit.org.

www.toyota.com/tomorrow

INTERNET

income of \$5.7 million in the first quarter after losing \$17.6 million in the year-earlier period.

Three years after the e-commerce IPO boom, a clear pecking order of profitability has emerged. The biggest money-makers: online travel, software, and financial-services firms. Why did these turn profitable first? Because software, financial services, and travel reservations are pure information products, without a physical widget to store or ship. Once overhead costs are covered, the expense in providing the service to one more customer is close to zero.

Online retailers are making slower, yet tangible, progress toward the Holy Grail, profitability. What's holding Amazon.com Inc. and other e-tailers back is simple: Every time someone buys a book on Amazon, the company has to buy a new copy from the publisher. The upshot is that Amazon's gross margins are around 26%, compared with 70% at Expedia.

Amazon, however, is getting leverage from its back-office operations. Marketing costs were 3.8% of sales in the first quarter, compared with 10.7% in 1999. Technology costs have been cut to 6.3% of sales, from 10.0% over the same period. And Amazon is running e-stores for partners like Target Corp. that use technology Amazon already owns.

To be sure, the same kind of operating leverage that boosts Web companies in good markets can hurt them in tougher times. In downturns, the high fixed costs of Web businesses, combined with even modest revenue declines, can whack profits. That's what happened to big Net names such as Yahoo! Inc. and America Online (now AOL Time Warner Inc.). Last year, Yahoo slipped into the red when the company's online advertising tanked before returning to profitability in 2002.

Every year, the Web has a revised story, but now it's past the point where predictions of profitability are written in sand. Some Web businesses do work. The proof is in the black ink.

By Timothy J. Mullaney in New York, with Robert D. Hof in San Mateo, Calif.

For Overture, The Stage Is Getting Crowded

If imitation is the sincerest form of flattery, Overture Services Inc. could do with fewer compliments. In 2001, the pioneer in pay-per-click search technology did what seemed impossible: It proved that online advertising can pay. Now, it faces an onslaught of competition, particularly from Google Inc., the most popular Net search engine. In May, Google scored a coup when it swiped America Online's pay-per-click search business from Overture. "Competition will cut into margins," says Overture CEO Ted Meisel. "But the opportunity to increase revenues is there."

No question about that. Last year, Overture saw the number of advertisers signing up for its service jump 39%, to 53,000. That drove revenues up 180% for the year, to \$288.1 mil-

lion, says Karen McMasters, who runs baby-supply site Barebabies.com. She figures 60% of Barebabies visitors who come from Overture make purchases, vs. 1% for those who find the site through billboard-like banner ads on the Web. That explains why the average price advertisers paid Overture jumped 26% last year, to 23¢ for every lead.

Still, success breeds competition. Google introduced its rival pay-per-click product earlier this year and quickly scored a coup with AOL, a unit of AOL Time Warner Inc. Smaller rivals, such as FindWhat.com in New York, have rolled out similar pay-per-click services. Even some of Overture's customers have considered developing their own search technology. Although the company still has 85%

of the pay-per-click market, investors have beaten Overture shares down from a high of \$42 in January to \$22 now.

Meisel is fighting hard to hold on to customers but it won't be easy or cheap. This year, Overture has renewed partnerships with Yahoo!, MSN, AltaVista, CNET Networks, and



OVERTURE

73

Ted Meisel, CEO

Overture Services proved there's money in online ads. Advertisers pony up only when surfers click through from the Overture search engine to their sites. Revenues jumped 180% last year, to \$288.1 million, and the startup made \$20.2 million in profits. Next hurdle: Holding off competition from Google and other copycats.

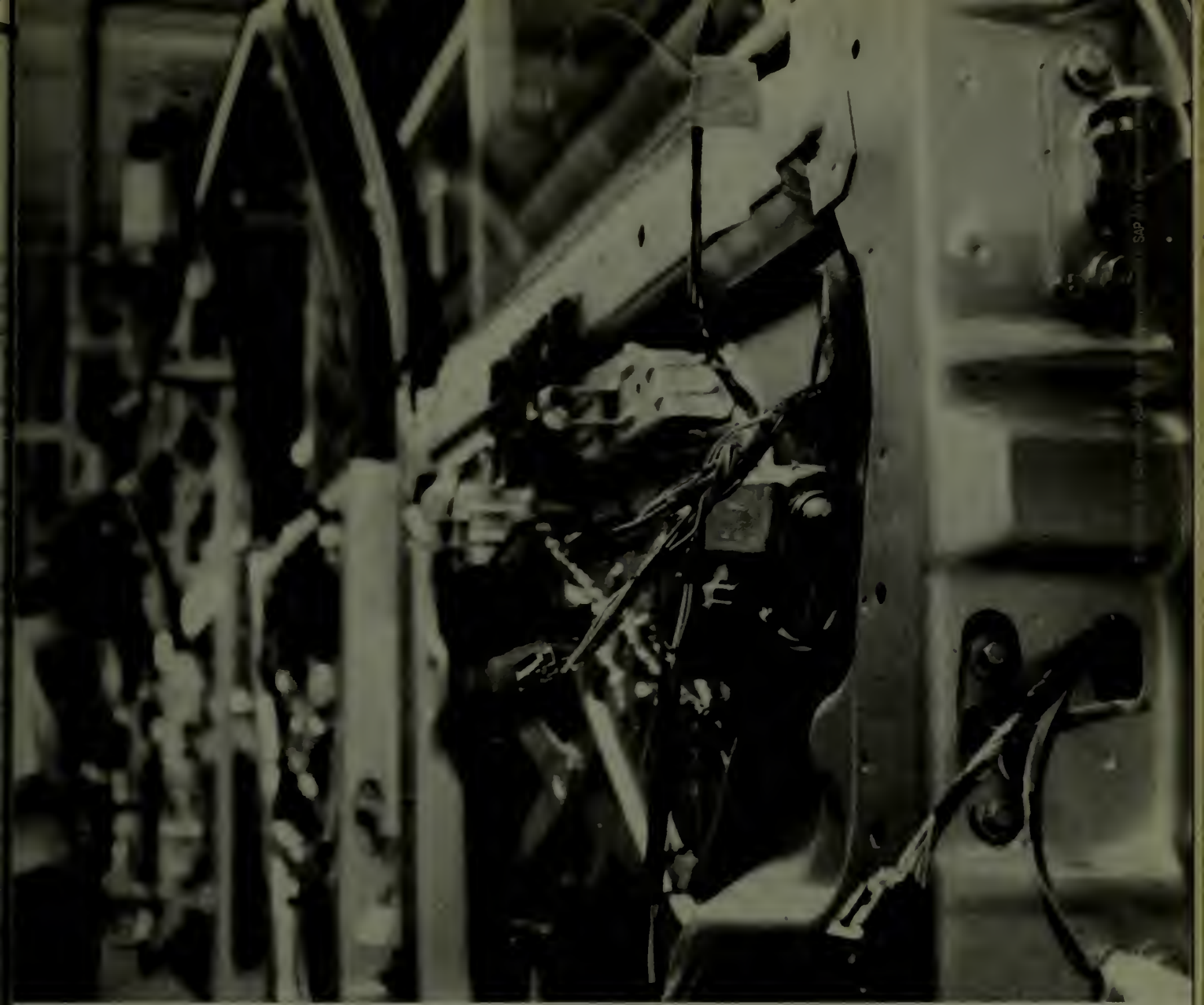
lion, and pushed the Pasadena (Calif.) company solidly into the black, with a \$20.2 million profit. The performance landed Overture, formerly GoTo.com, at No. 73 on *BusinessWeek's* annual Info Tech 100 list. Analysts expect Overture to report a \$62 million profit this year, on \$563 million in sales.

Overture's appeal to advertisers is simple. The service offers an efficient way for them to attract the right customers to their Web sites. Overture's advertisers choose search words—keywords in Internet parlance—and make bids on how much they're willing to pay to have those words turn up on top of searches. Here's the clincher: They pony up only when prospective customers click through to their sites. "It's like finding a gold

mine," says Karen McMasters, who runs baby-supply site Barebabies.com. She figures 60% of Barebabies visitors who come from Overture make purchases, vs. 1% for those who find the site through billboard-like banner ads on the Web. That explains why the average price advertisers paid Overture jumped 26% last year, to 23¢ for every lead.

For now, that isn't cutting into Meisel's plan to expand, thanks to a debt-free balance sheet and \$186 million in cash. He's adding new service for advertisers and expanding into France later this year. "We can't sit still," Meisel says. That fighting spirit will serve him well as his competition grows in the months ahead.

By Arlene Weintraub in Pasadena, Calif.



**ORDERS ARE ON TIME. EVERYONE'S
IN THE LOOP CUSTOMERS ARE HAPPY.**

AN ADAPTIVE SUPPLY CHAIN IS A BEAUTIFUL THING.)

A business is a jigsaw puzzle of people, products and processes. And because it's constantly in flux, it's hard to predict what, when. The mySAP™ Supply Chain Management Solution connects you with your customers, partners and suppliers, so you can adapt on the fly to shifts in supply and demand. It also offers higher visibility and covers all the bases — from planning and execution to networking and coordination. Which makes it the only adaptive SCM solution that can turn a supply chain into a profit center. To find out how you can optimize your supply chain, go to sap.com/scm

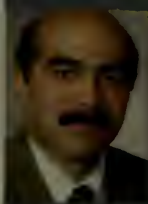
THE BEST-RUN E-BUSINESSES RUN SAP



What's on Wall Street's Shopping List

Despite the formidable odds, these stock-pickers haven't given up hope. They have managed to identify a few stocks that merit a buy recommendation

Safa Rashtchy



Vice President/
Senior Research
Analyst, U.S. Bancorp
Piper Jaffray

CATEGORY Internet

STOCK PICKS

Overture Services (OVER), USA Interactive (USAI), Yahoo! (YHOO)

WHY: Does Overture Services Inc. deserve an encore? Rashtchy thinks so. Shares of the pay-per-click search engine company rose 385% in 2001, the fifth-best performance on Nasdaq. Rashtchy thinks Overture will turn in another star performance in 2002, and

awarded it his only buy recommendation. He thinks worries about new competition are overblown, and predicts the stock, which has dropped to \$22 from \$40 during the past six months, will bounce back to \$44 in the next year. Overture, he bets, will earn \$68.4 million on 2002 sales of \$577 million. Next year, he expects a dip in profits, to \$53 million, but is bullish because sales will rise to \$702 million and the profit dip will be due mainly to higher taxes. He believes his estimates are conservative.

Every other stock is a runner-up for Rashtchy, but

he also likes USA Interactive Inc. and Yahoo! Inc., which he rates as "market outperform." He sees Yahoo's revenue climbing about 25% this year and next, as the portal shakes off 2001's online-ad bust.

He's higher on USA, which has plenty of cash for acquisitions in high-growth, high-margin businesses, especially in online travel. On June 7, USA said it would pay \$578 million

for Interval Acquisition Corp., which runs an online and offline global market where people swap use of time-share real estate. Rashtchy says USA's stock will hit \$38 within a year, up from \$24 now, as revenue rises an expected 25% in 2002 and in 2003. Returns like those may not evoke the gold rush era, but if USA builds profitable properties, shareholders could still strike it rich.



Charles Callard



President, Callard
Asset Management

CATEGORY
Telecommunications
Services

STOCK PICKS

IDT, Teléfonos de México (TMX)

WHY: Picking stocks was mostly a loser's game over the past year. But Callard Asset Management has put together a stellar record in the decimated telecom sector. The outfit, led by president Charles G. Callard, has racked up a 60% return over the past 12 months.

Callard's success may be

tied to his unique investment style. His research starts with Value Line Inc. forecasts for earnings five years out. Callard thinks that's the best predictor of a company's cash-generating capabilities. He then discounts the cost of capital priced into the stock—the rate of return that investors are expecting. Then he compares that with his own estimate. If he detects a bargain, he considers the stock.

Today, Callard is recommending two telecom companies: IDT Corp. and Teléfonos de México. IDT is promising because the

Newark (N.J.) long-distance player is scooping up assets from bankrupt rivals. Value Line forecasts that IDT will make \$80 million on revenues of \$2.3 billion in 2006. Callard figures IDT's stock, now at \$18, will rise to \$21 over the next year.

Telmex, the former phone monopoly in Mexico, still dominates that market. That should help its profits rise to \$3.5 billion

in 2006. Callard thinks that growth could propel the stock from \$35 today to his one-year price target of \$54.

Unlike many on Wall Street, Callard is willing to issue sell recommendations. He has a sell on Level 3 Communications Inc. Although the long-distance upstart's stock has tumbled some 95%, to \$4, Callard doesn't think it's a bargain. He expects more losses.





Kurt Doebling, Vice President
Strategy and Priority Programs, Sun Microsystems, Inc.

How did Sun's reengineering effort impact its supply chain? Strong supply chain management is a critical business imperative for Sun. We've embarked on a major effort to speed information in supply chain partnerships to improve the timeliness and predictability of product delivery to customers. The goal: faster information flow, better responsiveness to customer demand, more efficient inventories and lower costs—without sacrificing quality.

Why i2 as a solution? Sun wouldn't settle for anything less than best-of-breed technology. Joining on the Sun platform, i2's strong suite of Web-enabled supply chain tools allowed faster time to deployment with our external business partners.



What sorts of benefits are you seeing? We've made a lot of progress in a short period of time. We've had significant improvements in our factory material handling and on-a-large supply planning. We have tremendously increased the velocity of information exchange and visibility into the behavior of suppliers. We've improved our responsiveness and service to our customers while making better use of our assets.

"Sun's goals were to provide a solution that makes use of Sun's and suppliers' existing infrastructures and reduces the time to deployment while automating cost of entry. i2 was instrumental in turning this vision into reality."

We have also seen significant cost savings and productivity gains in factory planning, workload release and material valuation processes.

For a copy of this case study and others that show more than \$29 billion in audited value delivered, visit www.i2.com or call 1-866-288-4896.



i2.com

STOCK PICKS

Bob Austrian



Managing Director,
Analyst, Banc of
America Securities

CATEGORY
Software

STOCK PICKS Microsoft (MSFT), Siebel Systems (SEBL), Digital Insight (DGIN)

WHY: Since the software industry started heading south in early 2001, Austrian has been the bear of bears, cutting estimates on nearly every software

stock. He has only one strong buy: Digital Insight Corp., a small company that helps banks get their businesses online. He thinks the stock, which is trading at \$12, will hit \$30 this year. Why? Digital Insight provides software online as a service, so most revenues are recur-

ring. He expects sales to jump 44% this year.

He also likes Microsoft Corp., which rules the PC-software market. That's not all he likes. Microsoft

upped its share of database software to 14.4% in 2001 from 11.6% in 2000. He predicts revenues will rise 10% in the fiscal year ending June 30. He has a buy on the stock and a \$63 target price, up from the \$54 it's trading at today.

Austrian's third pick is contrarian: customer-man-

agement-software maker Siebel Systems Inc. It's out of favor with many analysts because its revenues are expected to fall 3.7% this year. Yet Austrian has a buy rating and a \$30 target price for Siebel, which is trading at \$19. He's betting cost cuts will boost profits 12.4% this year.



Joel Wagonfeld



Analyst, Banc of
America Securities

CATEGORY
Hardware

STOCK PICKS IBM (IBM), Sun Microsystems (SUNW), TechData (TECD)

WHY: The computer-hardware sector has crashed like an old version of Windows. Once a double-digit growth industry, sales fell 14.3% last year and are expected to drop 1.7% this

year. No wonder Wagonfeld's hardware picks have less and less to do with hardware.

Take IBM. Big Blue gets less than half its revenue from hardware. Instead, it's putting muscle into selling software and services. Wagonfeld

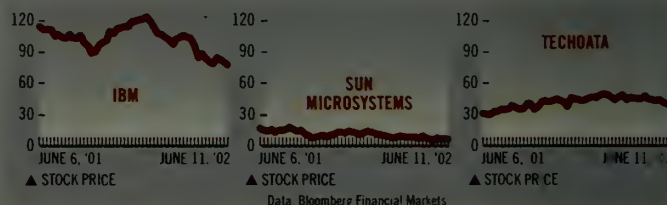
expects IBM's revenues to fall 4.2% this year. Still, he has a buy rating on the stock. With IBM's \$5 billion investment in R&D, it's well-positioned for recovery in 2003. He thinks shares

could rise to \$100 within 12 months, from \$78 today.

He's also keen on TechData Corp., the No. 2 distributor of computers and peripherals. TechData has expanded the array of services it offers manufacturers, including managing the shipping of products to dealers. Wagonfeld rates it

a buy, and thinks shares could rise over the next year to \$50, from \$40 today.

Sun Microsystems Inc. is a favorite, because, well, it's cheap. Shares of the money-losing computer maker are now \$7. If profits return in fiscal 2003, shares could hit \$10.



Karl Keirstead



Senior Vice-President,
Analyst, Lehman
Brothers

CATEGORY
Services

STOCK PICKS Affiliated Computer Services (ACS), Anteon International (ANT), Electronic Data Systems (EDS)

WHY: For years, corporations hired specialists to manage computer networks and payroll. Now they're also farming out tasks like human resources and

401(k)s. This new breed of Business Process Outsourcing (BPO) is growing up to 20% a year, says Keirstead.

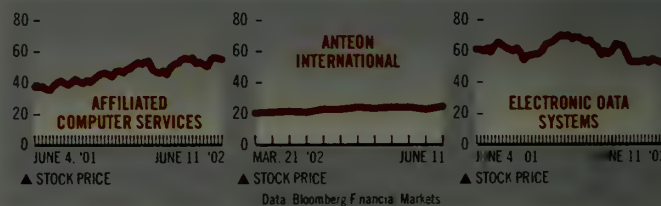
That's why he has a buy on Affiliated Computer Services, which gets two-thirds of its revenue from BPO. He expects the shares, now trading at \$55, to hit \$65 within 12 months. Sales and

profits are expected to rise more than 20% in 2003.

Keirstead's other picks also are linked to outsourcing. He has a buy on Anteon International Corp., a

Fairfax (Va.) defense contractor that specializes in info tech. Lehman Brothers helped take it public on Mar. 12 at \$18 a share. It's now trading at \$24, but Keirstead thinks Anteon can support a price-to-earnings ratio of 30, giving it the potential to reach \$30 in 2003. He predicts sales will grow 14% in 2002.

He also has a buy on Electronic Data Systems Corp. because its shares have been beaten down. It's trading at \$51, or 15 times 2002 earnings. Keirstead predicts that, within the year, EDS will hit \$65, or 20 times 2002 earnings. EDS is in the running for deals that could fuel earnings growth of 21% in 2002.



NEC



When you stop coming up with new challenges, we'll stop coming up with new monitors.

More real-world solutions from the best-selling brand of flat panel monitors. Today's specialized applications demand the right tools. So the NEC MultiSync® product line is always growing, always offering better ways to work. You'll find high resolution, flicker-free viewing; a choice of colors; touchscreen and protective glass technologies; flexible integration options; and models that afford both landscape and portrait viewing. Even the industry's first full line of thin-frame monitors for increased versatility in multi-monitor applications. And, unlike conventional CRT monitors, flat panel technology offers space-saving design and 60% less energy consumption for long-term efficiency.

Innovation continues to run in the family: from Ambix™ digital/analog dual input technology that ensures long-term compatibility to XtraView+™ for wide angle viewing to OmniColor™ technology for precise color values. All the display solutions you need — all from the world's largest line of flat panel monitors.

Learn more at www.necmitsubishi.com or call 888-NEC-MITS.



*Our innovative line of thin-frame
flat panel monitors allows you to
see more image, less frame.*

SEE MORE.™

NEC ranked as the #1 brand of flat panel monitors in the U.S. for 2001 according to the Stanford Resource — iSuppli Flat Panel Monitrac® Quarterly Report, Q4 '01. MultiSync is a registered trademark, and Ambix, XtraView+, and OmniColor are trademarks of NEC-Mitsubishi Electronics Display of America, Inc.

©2002 NEC-Mitsubishi Electronics Display of America, Inc.
All rights reserved. Simulated images in monitors.

NEC/MITSUBISHI
NEC-MITSUBISHI ELECTRONICS DISPLAY

THE INFORMATION TECHNOLOGY 100

To compile the Information Technology 100, *BusinessWeek* began with financial data from Standard & Poor's, a division of The McGraw-Hill Companies that has computerized information on 10,000 publicly traded corporations. We trimmed this universe to information technology companies and then added non-U.S. tech companies recommended by our network of foreign bureaus. To qualify, companies had to have revenues of at least \$300 million.

We divided this collection of about 550 companies into eight industry categories, such as software

and semiconductors. Companies whose stock price has dropped more than 75%, or where other developments raised questions about future performance, were eliminated from contention. We also dropped phone companies whose monopoly or near-monopoly power gives them an unfair advantage over competitors. The remaining group of companies was ranked on four criteria: shareholder return, return on equity, and revenue growth (which were given equal weight), and total revenues (which was given 1.5 times the weighting of the other categories). Finally, the top 200 compa-

nies were re-ranked as a group.

REVENUES Latest available revenues for the 12-month period ended Dec. 31, Jan. 31, Feb. 28, Mar. 31, or Apr. 30. For companies that do not report quarterly, the most recent annual data were used. Includes all sales and other operating revenues.

REVENUE GROWTH Percentage change in revenues compared with the previous 12-month period, in native currency.

RETURN ON EQUITY Net income available for shareholders divided by common equity.

TOTAL RETURN The total return to

shareholders, in U.S. dollar terms including reinvested dividends for 12 months ended May 31, 2001. **PROFITS** Latest available profit for the 12-month period ending Dec. 31, Jan. 31, Feb. 28, Mar. 31, or Apr. 30. Net income from continuing operations before extraordinary items.

Note: Data compiled by Standard Poor's from sources such as statistical services, registration statements, a company reports that S&P believes to be reliable but are not guaranteed by S&P or *BusinessWeek* as to correctness or completeness. This material is an offer to buy or sell any security

Who Is the Biggest?

COMPANY	CURRENT SALES (MILLIONS)
IBM	\$83,373.0
VERIZON	67,299.0
SBC	45,240.0
DEUTSCHE TELEKOM	43,582.4
HEWLETT-PACKARD	43,164.0
NTT DOCOMO	41,414.1
MOTOROLA	36,495.0
SAMSUNG ELEC.	35,025.5
VODAFONE	32,793.2
DELL COMPUTER	31,206.0

The Fastest-Growing

COMPANY	REVENUE GROWTH
WAVECOM	235.6%
OVERTURE	175.1
EXPEDIA	96.9
TELE2	70.7
EBAY	68.1
VIMPELCOM	67.7
ELITEGROUP	65.0
MOBILE TELESYSTEMS	62.4
KT FREETEL	61.7
UTSTARCOM	61.1

The Most Profitable

COMPANY	RETURN ON EQUITY
ORACLE	40.5%
CERTEGY	37.3
INFOSYS	37.2
IBM	31.1
WIPRO	30.3
QUANTA COMPUTER	29.0
DELL COMPUTER	27.5
ELITEGROUP	26.1
OVERTURE	25.1
CHINA MOBILE	25.1

The Best Returns

COMPANY	SHAREHOLDER RETURN THROUGH 5/31/01
SOFTWARE SPECTRUM	194.1
EXPEDIA	156.9
BENQ	129.8
KRONOS	88.1
ALLIANCE DATA SYS.	81.1
CERTEGY	79.9
SAMSUNG ELEC.	69.5
ACCTON	66.6
VIMPELCOM	66.1
CACI	65.5

All figures are for most recent available 12 months. Data: Standard & Poor's, *BusinessWeek*

ALPHABETICAL INDEX OF COMPANIES

The number that follows each company name indicates its ranking in the table

BusinessWeek online

For more, go to www.businessweek.com, where the June 24 issue will feature an expanded version of the top 200 public IT companies, including an in-depth financial profile of each company from Standard & Poor's.

Accton Technology 46	Certegy 26	Global Payments 59	KT Freetel 4	Scansource 35
Activision 41	China Mobile (Hong Kong) 6	Groupe CGI 58	L-3 Comm. Holdings 10	Sharp 92
Affiliated Computer Services 7	China Unicom 80	GTSI 60	Lexmark International 16	SK Telecom 9
Alliance Data Systems 94	Compal Electronic 65	Harris 79	LG Telecom 43	Software Spectrum 32
Alltel 30	Computer Sciences 28	Hewlett-Packard 99	Logitech International 14	Storage Technology 81
América Móvil 66	Concord EFS 22	Hon Hai Precision Ind. 3	Microsoft 27	SunGard Data Systems 36
Apple Computer 52	CSK 20	Hotels.com 86	mm02 89	Synnex Technology Intl. 67
Asustek Computer 23	Dassault Systèmes 97	Hoya 85	Mobile Telesystems 19	TDC 84
AT&T Wireless Services 76	Dell Computer 5	IDT 96	Motorola 95	Tech Data 37
Automatic Data Processing 12	Deutsche Telekom 74	Infosys Technologies 71	Nintendo 47	Tele2 91
BCE (Bell Canada Ent.) 64	D-Link 100	Ingram Micro 75	Nokia 54	Telecom Italia 57
BellSouth 42	DST Systems 39	Intel 56	NTT Data 88	Telefónica Móviles 34
BenQ 13	eBay 83	IBM 21	NTT DoCoMo 62	Telenor 15
BISYS Group 33	Electronic Arts 44	Intuit 48	Oracle 53	Telstra 18
CACI International 70	Electronic Data Systems 11	Inventec 68	Overture Services 73	UTStarcom 90
Cadence Design Systems 93	Elitegroup Comp. Systems 8	Itochu Techno-Science 69	Quanta Computer 2	Verizon Communications 7
Canon 24	Expedia 87	Japan Telecom 77	Reynolds & Reynolds 49	VimpeCom 40
Cap Gemini 78	First Data 50	KDDI 45	Samsung Electronics 1	Vodafone Group 55
CDW Computer Centers 17	Fiserv 29	KLA-Tencor 82	SAP 31	Wavecom 51
CenturyTel 38	Gigabyte Technology 61	Kronos 63	SBC Communications 25	Wipro 98

WHAT POWERS YOUR BUSINESS?

\$4.3 billion in factory automation equipment isn't all we sell. We also supply the training and performance services our customers need to optimize manufacturing, increase plant uptime, reduce time to market and drive regulatory compliance. Making sure that people get the proper initial and follow up training is critical in maintaining long-term customer relationships.

REDUCING RISK:

300,000 global learners in the Rockwell database.

20,000 customers currently enrolled.

1 Learning Management System (LMS) keeping everyone happy.

TODAY:

60/40. Rockwell is moving to a 60% instructor-led, 40% tech-led learning mix over the next four years. They are also making greater use of their LMS database to track learning trends and to determine future training resource allocations.

What if you could reduce your organizational risk through learning? What if you could achieve results – faster? What if you could be ready for change?

You can, with THINQ. THINQ's learning management software powers the learning that powers the business of more large organizations than any other.

Visit <http://ThoughtLeaders.THINQ.com>

to find out how Jim and his team reduce organizational risks, achieve results faster, and stay ready for change.

THINQ

LEARNING THAT POWERS BUSINESS

1.800.869.9461, press 3



"Customer training
doesn't end the sale.
It begins the next one."

Jim Mannarino
Manager of Customer Training,
Global Manufacturing Solutions

**Rockwell
Automation**
Global Manufacturing Solutions

INFORMATION TECHNOLOGY 100



RANK	COMPANY Country / Stock Symbol	Sector	REVENUES	REVENUE	RETURN	SHRHLOR.	PROFITS	COMMENTS
			\$ Millions Rank †	GROWTH Percent Rank †	ON EQUITY Percent Rank †	RETURN Percent Rank †	\$ Millions	
1	SAMSUNG ELECTRONICS Korea	COMP	35,025.5 12	6.7 98	15.8 50	69.5 11	2,304.0	The world's largest memory chipmaker, Samsung is now mining profits in phone handsets and other digital products.
2	QUANTA COMPUTER Taiwan	COMP	3,304.3 75	34.8 22	29.0 8	15.8 54	353.4	Nine of the world's top 10 notebook PC companies rely on Quanta to design and manufacture their machines.
3	HON HAI PRECISION IND. Taiwan	COMP	4,557.4 61	57.3 14	23.1 20	-1.9 87	387.4	The Taiwan-based PC component-maker has become one of China's top exporters since moving most of its factories there.
4	KT FREETEL Korea	TELE	3,481.4 72	61.7 11	20.1 30	8.6 67	335.4	By offering games, music downloads, and other services, this wireless service is striking a chord with young Korean Web surfers.
5	DELL COMPUTER U.S. / DELL	COMP	31,206.0 15	-4.4 139	27.5 9	10.2 61	1,241.0	HP's merger with Compaq unseated Dell as No. 1 in PCs, but it's still gaining share and expanding into servers and storage.
6	CHINA MOBILE (HONG KONG) China / CHL	TELE	12,121.8 34	54.4 15	25.1 14	-35.3 168	3,384.7	China's top cellular operator is gaining subscribers, but its average revenues per user are falling.
7	AFFILIATED COMPUTER SVCS. U.S. / ACS	SVCS	2,756.6 78	35.0 21	9.8 93	54.0 17	198.1	Back-office outsourcing has been a boon for ACS, which has turned in 30 straight quarters of earnings growth.
8	ELITEGROUP COMPUTER SYS. Taiwan	COMP	957.3 144	65.0 8	26.1 12	54.1 16	71.3	Thanks to low-cost production in China, this Taiwanese company has become the world leader in PC motherboards.
9	SK TELECOM Korea / SKM	TELE	4,740.9 60	8.1 96	20.1 31	29.6 41	868.2	The global pace setter in next-generation, high-speed mobile service boasts 5 million wireless data subscribers.
10	L-3 COMM. HOLDINGS U.S. / LLL	COMM	2,582.4 85	29.4 30	10.3 87	42.6 22	130.6	The maker of communications equipment for the defense industry has seen demand grow the post-September 11 era.
11	ELECTRONIC DATA SYSTEMS U.S. / EDS	SVCS	21,897.0 23	11.5 81	18.6 34	-12.9 120	1,271.0	Companies looking to cut costs via outsourcing are choosing EDS, but investors fret over slowing revenue growth.
12	AUTOMATIC DATA PROCESSING U.S. / ADP	SVCS	9,541.9 38	3.2 110	21.4 25	-2.6 89	1,068.5	ADP's paycheck and benefits-processing business has sagged with the slow economy. Now it's focusing on keeping costs low.
13	BENQ Taiwan	COMP	2,184.0 95	18.1 56	11.2 82	129.8 4	89.8	This spin-off from the Acer Group is Taiwan's biggest mobile-phone producer. And it's benefiting from demand for flat-panel displays.
14	LOGITECH INTERNATIONAL Switzerland / LOGI	COMP	943.5 146	28.3 32	23.2 19	58.5 15	75.0	The mouse-maker prospered even as PC sales slumped. Now it's branching out into speakers, cameras, and accessories for handhelds.
15	TELENOR Norway / TELN	TELE	5,121.8 55	22.5 43	16.8 41	-13.2 123	787.5	Norwegian telco has cut costs and boosted sales, and now it's the strongest wireless player in Scandinavia.
16	LEXMARK INTERNATIONAL U.S. / LXX	COMP	4,193.5 65	7.4 97	24.4 17	0.7 78	265.4	The printer giant continues to generate strong profits through double-digit growth in laser and inkjet printer sales.
17	CDW COMPUTER CENTERS U.S. / CDWC	DIST	3,977.1 67	0.3 120	19.4 32	30.8 38	169.0	Despite the tech downturn, the PC distributor is doing well by targeting small and medium-size businesses.
18	TELSTRA Australia / TLS	TELE	10,220.4 36	4.6 106	24.3 18	-13.2 122	1,808.5	Australia's No. 1 telco believes there's plenty of growth left in mobile, but it's taking a cautious approach to 3G services.
19	MOBILE TELESYSTEMS Russia / MBT	TELE	974.5 143	62.4 9	20.7 26	15.0 57	220.0	Russian cell-phone leader concentrates on cities—but now must wire the world's biggest hinterland to keep growing.
20	CSK Japan / CSKKY	SVCS	3,393.0 73	1.2 118	15.0 55	37.2 26	113.9	Thanks to strong demand for call centers and network management, this information-services firm is back in the black.

KEY TO INDUSTRIES: COMM = Communications equipment, COMP = Computers and peripherals, DIST = Distributors, INTERNET = Internet companies, SEMI = Semiconductors, SVCS = Services, SOFT = Software, TELE = Telecommunications.

FOOTNOTES: *Only for companies traded on U.S. exchanges. †Among top 200 companies. ‡Total return is based on less than one year of data because of spin-off has occurred since May 31, 2001.

Research assistance by Susan Zeng

INFORMATION TECHNOLOGY 100



RANK	COMPANY Country / Stock Symbol*	Sector	REVENUES	REVENUE	RETURN	SHRHLDR.	PROFITS	COMMENTS
			\$ Millions Rank †	Growth Percent Rank †	ON EQUITY Percent Rank †	RETURN Percent Rank †	\$ Millions	
1	IBM U.S. / IBM	SVCS	83,373.0 1	-7.5 150	31.1 6	-27.6 155	7,165.0	Despite falling sales, IBM's size and profitable services and software businesses keep it on the technology map.
2	CONCORD EFS U.S. / CEFT	SVCS	1,793.5 112	21.2 48	15.1 53	23.4 44	296.6	The Memphis processor of debit-card transactions is using acquisitions to drive 25%-plus profit growth.
3	ASUSTEK COMPUTER Taiwan	COMP	2,536.4 87	21.1 49	24.7 16	-13.1 121	479.4	Like other Taiwanese motherboard producers, Asustek is counting on low-cost production in China to boost profits.
4	CANON Japan / CAJ	COMP	21,431.5 24	2.7 111	10.5 86	-1.6 85	1,174.7	Nimble and profitable, this star in everything from printers to cameras sets the pace for Japan's tech sector.
5	SBC COMMUNICATIONS U.S. / SBC	TELE	45,240.0 6	-9.5 157	22.9 21	-18.1 135	7,098.0	The Texas-based local telephone giant is blazing into long-distance service to boost future growth.
6	CERTEGY ‡ U.S. / CEY	SVCS	891.0 149	9.1 91	37.3 3	79.9 9	87.9	This financial transaction processor is the leader in niche markets such as community banks and credit unions.
7	MICROSOFT U.S. / MSFT	SOFT	27,689.0 16	12.9 77	11.7 78	-26.4 151	6,369.0	The software giant is still duking it out in court. But two monopolies and growing corporate sales keep Gates & Co. ahead of rivals.
8	COMPUTER SCIENCES U.S. / CSC	SVCS	11,426.0 35	8.6 93	4.8 127	12.8 59	344.1	The federal government is outsourcing more of its technology needs, and CSC is reaping the rewards.
9	FISERV U.S. / FISV	SVCS	2,068.5 98	15.9 63	13.2 67	15.8 55	222.6	Technology that helps banks run back-office operations such as check-processing is a winner.
10	ALLTEL U.S. / AT	TELE	7,511.5 42	2.5 113	15.6 52	-9.2 106	885.1	With its pending purchase of rival Centurytel's wireless unit, Alltel is the top mobile player in smaller cities in the South and Midwest.
1	SAP Germany / SAP	SOFT	6,639.3 45	13.2 76	16.6 44	-26.1 150	468.2	While other corporate software makers are cutting back, SAP is adding bodies—and gaining market share.
2	SOFTWARE SPECTRUM U.S. / SSPE	DIST	1,327.0 126	11.9 79	12.9 69	194.1 1	8.7	This company makes big bucks helping businesses buy software from Microsoft, IBM, and others.
3	BISYS GROUP U.S. / BSG	SVCS	821.6 151	24.0 42	16.9 40	36.0 30	107.2	More companies are asking the financial-services outsourcer to manage their retirement programs.
4	TELEFONICA MOVILES Spain / TEM	TELE	7,470.7 44	13.6 72	13.3 65	-19.6 138	888.8	The Spanish cell-phone star has thrived, but now that 70% of Spaniards are mobile, how long can its rapid growth last?
5	SCANSOURCE U.S. / SCSC	DIST	781.2 157	28.6 31	16.7 42	33.2 36	18.3	The top distributor of ID scanning equipment is riding a boom in bar code- and magnetic stripe-readers.
6	SUNGARD DATA SYSTEMS U.S. / SDS	SVCS	2,082.1 96	21.3 47	13.9 61	-5.4 95	262.1	Nearly 70% of all Nasdaq trades pass through SunGard's transaction systems, helping boost profits and revenues.
7	TECH DATA U.S. / TECD	DIST	16,437.9 28	-18.6 175	8.3 101	34.1 34	114.1	The second-largest computer wholesaler continues to cut costs and grab market share by keeping prices low.
8	CENTURYTEL U.S. / CTL	TELE	2,024.4 102	9.7 85	14.1 60	9.7 63	339.2	Selling off its wireless operations to Alltel will allow the telco to focus on offering local phone service in rural areas.
9	DST SYSTEMS U.S. / DST	SVCS	1,909.9 108	22.4 44	14.8 58	-7.0 97	232.5	The provider of data-management systems and services to the financial industry is now selling to telcos and utilities, too.
10	VIMPELCOM Russia / VIP	TELE	487.9 183	67.7 7	13.1 68	66.1 13	70.2	Vimpelcom may be Russia's No. 2 cell-phone operator, but it's the first Russian company to list on New York's Big Board.

BY INDUSTRIES: COMM = Communications equipment, COMP = Computers and peripherals, DIST = Distributors, INTERNET = Internet companies, SEMI = Semiconductors, SVCS = Services, SOFT = Software, TELE = Telecommunications

NOTES *Only for companies traded on U.S. exchanges. †Among top 200 companies. ‡Total return is based on less than one year of data because of spin-off has occurred since May 31, 2001. Research assistance by Susan Zegel

INFORMATION TECHNOLOGY 100

THE
INF
TEC
100

COMPANY Country / Stock Symbol*	Sector	REVENUES \$ Millions Rank †	REVENUE GROWTH Percent Rank †	RETURN ON EQUITY Percent Rank †	SHRHLOR. RETURN Percent Rank †	PROFITS \$ Millions	COMMENTS
41 ACTIVISION U.S. / ATVI	SOFT	786.4 156	26.8 35	12.1 75	43.7 21	52.2	The video-game publisher is riding high with hot titles such as "Spider-Man" and "Tony Hawk's Pro Skater."
42 BELLSOUTH U.S. / BLS	TELE	23,745.0 20	-7.4 149	14.8 57	-17.6 132	2,834.0	While steering clear of big mergers, the third largest local phone company still managed to outperform the industry.
43 LG TELECOM Korea	TELE	1,614.7 119	14.7 69	18.9 33	-2.6 88	119.6	No longer a money-losing telco, LG is now in a race to offer next-generation wireless service in Korea.
44 ELECTRONIC ARTS U.S. / ERTS	SOFT	1,724.7 114	30.4 28	8.2 104	8.7 66	101.5	The No. 1 independent publisher of video games continues to rock the charts with titles such as "Tiger Woods PGA 2002."
45 KDDI Japan	COMM	22,693.3 22	24.9 40	1.5 145	-26.7 152	103.9	Simple, fast service makes this carrier the leading provider of high-speed wireless data offerings in Japan.
46 ACCTON TECHNOLOGY Taiwan	COMP	549.2 176	30.2 29	13.2 66	66.6 12	41.4	The Taiwanese producer of networking equipment has seen its fortunes rise as demand for wireless Internet access has grown.
47 NINTENDO Japan	SOFT	4,181.5 66	20.1 53	12.7 71	-28.0 157	802.1	With its popular handhelds, the video-game pioneer has the kid market all to itself. And its new GameCube has Sony in its sights.
48 INTUIT U.S. / INTU	SOFT	1,492.4 122	21.1 50	4.8 126	36.4 28	110.6	Death, taxes, Intuit? Only part of the story. A push into small-biz software should help boost 2003 profits by 25% to 30%.
49 REYNOLDS & REYNOLDS U.S. / REY	SOFT	987.3 142	-1.2 129	22.9 22	37.9 25	106.3	The company's programs for managing car dealerships have kept its sales engines purring while the software industry is in the dumps.
50 FIRST DATA U.S. / FDC	SVCS	669.5 166	11.5 80	24.8 15	20.9 45	928.7	The parent of Western Union hopes to profit from moving more of its payment processing business online.
51 WAVECOM France / WVCM	COMM	331.9 198	235.6 1	14.5 59	34.3 33	16.5	Designing the guts of mobile phones has stoked sales growth at the smart, scrappy French upstart.
52 APPLE COMPUTER U.S. / AAPL	COMP	5,795.0 50	-5.5 144	5.1 121	16.8 53	205.0	A string of premium-priced hit products helped the perennial underdog sail through a PC price war virtually unscathed.
53 ORACLE U.S. / ORCL	SOFT	10,092.6 37	-8.0 152	40.5 2	-48.2 185	2,423.0	With market share losses and a management exodus, it has been a tough year for the database giant. But Oracle still churns out fat profits.
54 NOKIA Finland / NOK	COMM	26,323.6 19	-5.2 143	17.8 37	-52.0 188	1820.1	The king of mobile phones keeps gaining share and executing well, but its star could fade as mobile penetration peaks.
55 VODAFONE GROUP U.K. / VOD	TELE	32,793.2 13	52.3 16	-10.8 184	-41.8 180	-22,506.6	Billions in writeoffs, true. But Vodafone is still the world's biggest mobile operator and the industry's strongest brand.
56 INTEL U.S. / INTC	SEMI	26,643.0 18	-17.8 173	4.9 125	2.5 75	1742.0	It's widening its speed-lead on rival AMD, but return to sizzling sales will wait until corporations upgrade aging PCs.
57 TELECOM ITALIA Italy / TI	TELE	27,590.8 17	13.4 75	-16.7 192	-11.0 112	-1,851.4	It's dominant in Italy and light on debt—if you don't count the mountain of IOUs that controlling shareholder Olivetti is holding.
58 GROUPE CGI Canada / GIB	SVCS	1,211.4 129	42.3 18	5.9 119	2.5 76	63.3	As more U.S. companies send programming work abroad, the Canadian IT-services company is posting 40% earnings growth.
59 GLOBAL PAYMENTS U.S. / GPN	SVCS	444.6 187	32.8 26	11.7 79	38.7 23	35.6	The check and credit-card processing giant, which handles 2.7 billion transactions annually, has taken off through Web-enabled services.
60 GTSI U.S. / GTSI	DIST	811.0 152	14.9 68	9.7 94	44.4 20	6.2	The reseller of computers, software, and peripherals to government agencies is benefiting from growing federal outsourcing.

KEY TO INDUSTRIES: **COMM** = Communications equipment, **COMP** = Computers and peripherals, **DIST** = Distributors, **INTET** = Internet companies, **SEMI** = Semiconductors, **SVCS** = Services, **SOFT** = Software, **TELE** = Telecommunications.

FOOTNOTES *Only for companies traded on U.S. exchanges. †Among top 200 companies. ‡Total return is based on less than one year of data because IPO or spin-off has occurred since May 31, 2001. Research assistance by Susan Zee

If You Own or Operate a Commercial, Residential or Public Building Constructed With Asbestos-Containing Products or Have Other Claims Against W. R. Grace

Your Claims Must Be Filed By March 31, 2003

W. R. Grace, its predecessors, subsidiaries, and other related entities ("Grace") have filed for protection under Chapter 11 of the U.S. Bankruptcy Code. The Bankruptcy Court has ordered that all individuals and entities with Asbestos Property Damage Claims or certain Other Claims against Grace must file these claims on or before March 31, 2003 ("Bar Date").

Who is Affected by this Notice?

Asbestos Property Damage Claimants

Individuals and entities that own or manage commercial, public and high-rise residential buildings that have asbestos-containing products may be affected including schools, hotels, government buildings, theaters, airports, churches, and other public facilities.

Asbestos Property Damage Claims include, among other claims, the cost of removal, the diminution of property value or economic loss, etc., caused by asbestos in products manufactured by Grace or from vermiculite mined, milled, processed, or sold by Grace.

Other Claimants

Other Claimants include individuals and entities with claims other than Asbestos Personal Injury Claims. These include general unsecured trade claims, contract claims, environmental claims, and Medical Monitoring Claims which allege no current personal injury, but significant exposure to Grace asbestos or vermiculite products requiring the claimant to be examined medically or tested to detect possible future injury.

What Types of Products are Involved?

Grace Asbestos-Containing Products

Grace produced and marketed vermiculite products containing added asbestos primarily to the commercial construction industry.

From 1959 to 1973, Grace marketed Mono-Kote 3 (MK-3), an asbestos-containing, wet, spray-applied fireproofing product used to provide fire protection for the enclosed steel structures of large buildings. Other Grace products included Zonolite Acoustical Plastic, and other acoustical plaster and texture products used primarily on interior ceilings and walls.

Grace Vermiculite Products

Grace mined, produced and marketed vermiculite products, some of which may have contained naturally occurring asbestos. The products were sold to the building construction, agricultural/horticultural and consumer markets. These products included Monokote Fireproofing, Zonolite Concrete Roof Decks and Zonolite Masonry Insulation.

How do I file a Claim?

To preserve your claim, you must file the appropriate Proof of Claim Form with the Claims Agent so that it is received by March 31, 2003. Failure to file a Proof of Claim Form by the Bar Date may result in your claim not being considered for payment.

This is a Summary Notice only. For complete information including the Claims Bar Date Notice, Proof of Claim Forms, instructions for filing a claim, a list of Grace asbestos-containing products, and a list of Grace entities write to: Claims Agent, Re: W. R. Grace & Co. Bankruptcy, P. O. Box 1620, Faribault, MN 55021-1620, or call:

1-800-432-1909 or visit www.graceclaims.com

INFORMATION TECHNOLOGY 100

THE
INTE

RANK	COMPANY Country / Stock Symbol*	Sector	REVENUES	REVENUE	RETURN	SHRHLDR.	PROFITS	COMMENTS
			\$ Millions Rank †	Percent Rank †	ON EQUITY Percent Rank †	RETURN Percent Rank †	\$ Millions	
61	GIGABYTE TECHNOLOGY Taiwan	COMP	803.8 154	5.3 102	20.3 28	19.3 49	101.8	A leading manufacturer of motherboards for desktops, Gigabyte is diversifying into server and wireless equipment.
62	NTT DOCOMO Japan	TELE	41,414.1 9	10.4 84	0.0 154	-29.2 159	6.9	While its overseas investments have soured Japan's No. 1 mobile operator is pushing ahead with 3G.
63	KRONOS U.S. / KRON	SOFT	317.2 199	14.9 67	17.7 38	88.1 7	26.6	Customers use Kronos software to schedule workers, track their performance, and analyze productivity.
64	BCE (BELL CANADA ENT.) Canada / BCE	TELE	13,637.0 32	17.2 58	-0.8 159	-24.5 146	-44.5	A disastrous investment in upstart Teleglobe cost BCE's CEO his job in April. But BCE has bounced back since dropping Teleglobe.
65	COMPAL ELECTRONIC Taiwan	COMP	2,249.6 93	4.2 107	13.7 63	-9.1 105	160.0	This manufacturer of notebook computers has prospered as PC makers outsource their production.
66	AMERICA MOVIL Mexico / AMX	TELE	4,755.4 59	20.7 52	0.4 152	-13.8 125	26.7	Spun off from Telmex in 2000, América Móvil faces growing competition but still holds a commanding 75% of Mexico's wireless market.
67	SYNNEX TECHNOLOGY INTL. Taiwan	DIST	1,931.8 106	5.9 100	9.9 91	4.0 72	42.2	The Taiwanese wholesaler of computers and peripherals has moved into new markets in Australia, China, and Thailand.
68	INVENTEC Taiwan	COMP	2,417.0 90	-19.0 176	15.9 48	9.2 64	112.8	A manufacturer of notebook PCs and servers Inventec makes computers for Compaq and may benefit from the HP merger.
69	ITOCHU TECHNO-SCIENCE Japan	DIST	2,744.2 79	14.0 70	17.5 39	-64.9 198	96.1	The world's largest reseller of Sun Microsystems products has seen profits slide due to steep cuts in tech spending.
70	CACI INTERNATIONAL U.S. / CACI	SVCS	644.8 170	20.8 51	8.1 106	65.5 14	28.7	By specializing in serving government agencies the systems integrator has increased sales by more than 20%.
71	INFOSYS TECHNOLOGIES India / INFY	SVCS	545.1 177	31.7 27	37.2 4	-16.5 130	164.5	India's premier software maker is among the country's best-managed companies.
72	VERIZON COMMUNICATIONS U.S. / VZ	TELE	67,299.0 2	1.3 117	-3.7 170	-19.0 137	-1,160.0	The telecom behemoth boasts the largest local phone and wireless operations in the U.S. Now it's targeting long distance and broadband.
73	OVERTURE SERVICES U.S. / OVER	INET	379.0 193	175.1 2	25.1 13	-13.5 124	56.2	Who says online advertising is dead? This marketer of pay-per-click ads saw sales nearly triple over the last year.
74	DEUTSCHE TELEKOM Germany / DT	TELE	43,582.4 7	17.7 57	-7.8 182	-46.9 182	-4,274.8	The ex-monopoly is straining under \$60 billion in debt, but has defended market share in mobile and long distance.
75	INGRAM MICRO U.S. / IM	DIST	23,610.0 21	-21.6 180	-0.1 155	8.7 65	-1.6	A reorganization helped the distributor of hardware, networking gear, and software cut debt and expenses.
76	AT&T WIRELESS SERVICES U.S. / AWE	TELE	14,011.0 30	22.3 45	0.4 151	-54.7 191	128.0	With new data services targeted at business users, AT&T Wireless is poised to crack the corporate market.
77	JAPAN TELECOM Japan	TELE	13,646.1 31	16.3 61	-16.9 193	-18.4 136	-528.3	The big thing going for this telco is its white-hot J-Phone mobile phone business.
78	CAP GEMINI France	SVCS	7,534.7 41	21.4 46	3.5 135	-56.9 194	136.1	It's been rough sailing for the French consulting firm since buying Ernst & Young, though outsourcing deals are picking up.
79	HARRIS U.S. / HRS	COMM	1,906.7 109	-1.7 130	7.5 108	33.5 35	85.1	With years of experience selling secure radio systems to the military, Harris is poised to be a major supplier in the war on terrorism.
80	CHINA UNICOM China / CHU	TELE	3,551.2 70	24.1 41	7.2 110	-42.8 181	538.5	The No. 2 Chinese mobile operator is working with Qualcomm to launch a new service, but consumer demand has lagged.

KEY TO INDUSTRIES: COMM = Communications equipment, COMP = Computers and peripherals, DIST = Distributors, INET = Internet companies, SVCS = Services, SOFT = Software, TELE = Telecommunications.

*NOTES: *Only for companies traded on U.S. exchanges. †Among top 200 companies. ‡Total return is based on less than one year of data because of spin-off has occurred since May 31, 2001.

Research assistance by Susan Z...



THE GOOD NEWS IS, YOU NOW HAVE MORE VALUABLE
INFORMATION COMING INTO YOUR BUSINESS THAN EVER BEFORE.

BUT THEN, THAT'S ALSO THE BAD NEWS.



BrightStor™ Storage Resource Manager

The smart alternative to managing your storage.

You never thought you could have too much of a good thing when it came to critical business information. But now the time has come. That's why it's more important than ever to have the right software. With BrightStor Storage Resource Manager, you can finally get a firm handle on all your assets. BrightStor™ works across multiple platforms, protocols, and applications, so you can tap into information throughout your enterprise, wherever it may be. As a result, you can truly leverage your resources, making them work for you like never before. And the downside? There isn't one. To find out more, go to co.com/brightstor/srm today.



Computer Associates™

HELLO TOMORROW™ | WE ARE COMPUTER ASSOCIATES | THE SOFTWARE THAT MANAGES eBUSINESS™

©2002 Computer Associates International, Inc. (CAI). All trademarks, trade names, service marks and logos referenced herein belong to their respective companies.

INFORMATION TECHNOLOGY 100

THE
INI
TEC
100

COMPANY Country / Stock Symbol*	Sector	REVENUES \$ Millions Rank †	REVENUE GROWTH Percent Rank †	RETURN ON EQUITY Percent Rank †	SHRHLDR. RETURN Percent Rank †	PROFITS \$ Millions	COMMENTS
81 STORAGE TECHNOLOGY U.S. / STK	COMP	2,032.4 101	-1.8 131	7.3 109	20.4 46	76.2	A sharper focus on key customers and a partnership with LSI Logic led the way to strong results despite the storage slump.
82 KLA-TENCOR U.S. / KLAC	SEMI	1,866.7 111	-5.9 145	15.8 49	1.0 77	299.6	The semiconductor industry may be hurting customers still need KLA's diagnostic gear and software for making chips.
83 EBAY U.S. / EBAY	INET	839.8 150	68.1 6	7.7 107	-8.8 101	117.0	Still dominant in online auctions, eBay aims to reach \$3 billion in revenues by 2005 by offering fixed prices on everything from cars to PCs.
84 TDC Denmark / TLD	TELE	6,194.8 48	15.7 64	-2.5 164	-33.1 164	-88.7	While other European telcos slash investments, Denmark's leading carrier is wiring its nation for broadband.
85 HOYA Japan	SEMI	1,884.0 110	-0.6 126	10.8 85	4.3 70	190.1	It's tops in optical glass and eyeglasses, though margins are falling for chipmaking gear and lenses for digital cameras.
86 HOTELS.COM U.S. / ROOM	INET	596.9 172	57.9 13	4.2 133	24.8 43	24.0	Online-reservation network reserves rooms on the cheap, then books them at a discount. The formula kept sales rising even after September.
87 EXPEDIA U.S. / EXPE	INET	355.7 196	96.9 3	0.6 149	156.9 2	1.8	The Web travel leader is cashing in as sales reach critical mass and it enters the tour-packaging business.
88 NTT DATA Japan	SVCS	6,422.2 46	0.1 122	6.4 115	-22.3 143	211.5	A spin-off of giant NTT, this systems integrator lives off government and public-sector contracts.
89 MM02† U.K. / OOM	TELE	6,093.3 49	33.6 24	-4.5 174	-41.1 178	-1,211.3	Spun off from BT Group last year and now Europe's fifth largest wireless service operator with 17.5 million subscribers.
90 UTSTARCOM U.S. / UTSI	COMM	691.3 164	61.1 12	8.9 98	-5.4 94	65.1	With cutting-edge wireless and broadband gear and a focus on high-growth China, UTStarcom is a rare telecom success.
91 TELE2 Sweden / TLTOB	TELE	2,592.8 84	70.7 5	4.2 132	-53.4 189	115.1	The Swedish telecom upstart has bucked the downturn, grabbing share in the Nordic, central, and southern European markets.
92 SHARP Japan	COMP	14,445.0 29	-10.4 160	1.2 147	-8.9 102	90.6	With its crystal-clear focus on LCDs, Sharp leads the way in developing high-end screens for everything from handhelds to home theater.
93 CADENCE DESIGN SYSTEMS U.S. / CDN	SOFT	1,430.5 123	4.7 105	13.8 62	-8.9 103	158.8	Can strong sales at Cadence mean things are picking up for the semiconductor makers that buy its chip design software?
94 ALLIANCE DATA SYSTEMS† U.S. / ADS	SVCS	806.5 153	16.2 62	-0.3 156	81.1 8	0.0	Providing transaction processing and private label credit cards to retailers rings up Alliance Data's cash register.
95 MOTOROLA U.S. / MOT	COMM	36,495.0 11	-22.5 182	-29.6 199	9.9 62	-3,853.0	A surge in wireless phone profits is breathing life into the electronics giant, which makes everything from chips to police radios.
96 IDT U.S. / IDT	TELE	1,380.0 124	25.5 38	-26.4 197	30.7 39	-248.6	Once an international upstart phone company, IDT is aiming for the big leagues by acquiring assets of troubled telcos.
97 DASSAULT SYSTEMES France / DASTY	SOFT	665.5 167	15.1 65	16.3 45	-8.7 100	82.9	French software star continues to profit from sales of some of the zippiest programs to design cars and planes.
98 WIPRO India / WIT	SVCS	695.9 163	10.4 83	30.3 7	-15.5 128	170.6	After starting out as a vegetable oil company, Wipro is now India's largest software services company.
99 HEWLETT-PACKARD U.S. / HPQ	COMP	43,164.0 8	-12.3 167	6.1 118	-33.8 166	915.0	The printer business was a safe harbor during the downturn. Now the computer giant hopes to boost its fortunes with the purchase of Compaq Computer.
100 D-LINK Taiwan	COMP	521.5 179	26.4 36	10.3 88	4.1 71	28.3	D-Link has scored thanks to growing demand for its wireless networking equipment in the U.S.

KEY TO INDUSTRIES: COMM = Communications equipment, COMP = Computers and peripherals, DIST = Distributors, INET = Internet companies, SEMI = Semiconductors, SVCS = Services, SOFT = Software, TELE = Telecommunications.

FOOTNOTES: *Only for companies traded on U.S. exchanges. †Among top 200 companies. ‡Total return is based on less than one year of data because of spin-off has occurred since May 31, 2001.

Research assistance by Susan Zel



Today, Business is Global. Is Your Law Firm?

To realize a vision, a company must be poised to take advantage of opportunities quickly — before they are seized by others. Combining an understanding of our clients' needs with the broad transactional and litigation experience of a 1,000 lawyer international law firm, Morrison & Foerster lawyers help clients recognize opportunities, resolve problems, and create value in today's fast-changing global marketplace.

MORRISON & FOERSTER LLP

Lawyers for the global economySM

MoFo

on the web at www.mofo.com

CEO to-do list

☐ The impossible

☐ The unpredictable

☐ The right thing

☐ The next thing

☒ Attend BusinessWeek CEO Summit

Sponsored by AGILENT TECHNOLOGIES DUKE ENERGY Audience Provided by Meridia
For sponsorship opportunities contact Jim Richardson at 212-512-4435.

It's a Whole New Ball Game A CEO Agenda for 21st Century Competitiveness

September 25-27, 2002 - The Ritz-Carlton, Washington, DC

Confirmed Speakers



Douglas T. Elix
Senior Vice President
and Group Executive,
IBM Global Services



Craig Conway
President and CEO,
PeopleSoft, Inc.



Kenneth D. Lewis
Chairman, CEO
and President,
Bank of America



Michael J. Saylor
Chairman and CEO,
MicroStrategy, Inc.



Daniel P. Amas
Chairman and CEO,
AFLAC



John W. Thompson
Chairman and CEO,
Symantec



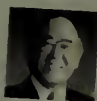
Jeffrey C. Barbokow
Chairman and CEO,
Tenet Healthcare



Al Zallar
General Manager,
Lotus Software



Edward M. Liddy
Chairman,
President and CEO,
Allstate



Fujia Mitarai
President and CEO,
Canon Inc.



Harvey J. Padewer
President,
Duke Energy Services



Ned Barnhalt
President and CEO,
Agilent Technologies,
Inc.



Richard D. Fairbank
Chairman and CEO,
Capital One



Michael S. Dell
Chairman and CEO,
Dell Computer

5

6

7

8

See inside



To register call
877-734-4249



The McGraw-Hill Companies



TURNAROUND TEAM: *Watkins and Luczo revamped Seagate's manufacturing*

old company's manufacturing processes and streamlined supply chain, so it's churning out more drives at less cost. Although sales were down 2% to \$5 billion, because of the tech downturn, the company chalked up a profit of \$352 million for the first nine months of its fiscal year, which ended on June 30. That will help reverse a loss of \$522 million in 2001. Moreover, Seagate widened its market-share lead over competitors to a commanding 56%, from 47% last year, according to research firm Trend Focus. Even its rivals are impressed. "They're well-focused and have made a lot of progress," says Michael Cannon, CEO of Maxtor Corp. in Milpitas, Calif.

Indeed, thanks to the turnaround, analysts say Seagate is now weighing a return

to the public market later this year. Luczo declined to discuss the company, citing potential objections from the Securities & Exchange Commission. But analysts think the offering could value the streamlined Seagate as high as \$10 billion. That almost certainly will be the year's largest tech public offering.

Seagate may well need the money. Making disk drives is a brutal business with ever-shortening product cycles and thinning margins. Year after year, drive makers must pump in cash to make faster, smaller drives that store much more data but sell for less money. "You can't fall off the trend in research and development or you'll fall out of the market," says James N. Porter, president of Disk/Trend Inc., a market researcher. The number of companies that sell drives directly to computer makers is down from 75 in the late 1980s to four today: Seagate, Maxtor, and Japan's Fujitsu and Hitachi, which recently agreed to buy IBM's drive unit.

It hasn't been easy staying on the list, and it won't get any easier. Seagate now spends about \$650 million a year on product development, a 65% jump from 1997, the year before Luczo began rethinking operations. Analysts say it'll have to keep up that pace. Seagate has shut half its overseas factories and slashed 60,000 jobs, cutting costs by 37%, or \$2 billion, since 1997.

PRIVATE COMPANIES

How Seagate Got Its Groove Back

Going private freed the disk-drive maker from Wall Street's unrelenting demands. Now retooled, profitable, and boasting a 56% market share, it may be ready to go public again

In early 2000, something seemed out of whack to Stephen J. Luczo, CEO of leading computer disk-drive maker Seagate Technology Inc. Sure, the company was losing money, but its \$15 billion market value didn't make sense: It was actually \$3 billion *less* than Seagate's 33% share of hot software maker Veritas Software Corp., whose sales were just 10% of Seagate's \$6 billion. So Luczo tapped two investment firms to help engineer an elaborate deal with

Veritas that cashed out that stake for shareholders, sold off ancillary units, and took the stripped-down Seagate private. The result: Seagate executives could now ignore Wall Street's relentless demands for quarterly earnings and turn their full focus to stepping up a manufacturing revamp it began two years before.

Today, Seagate is back in fighting trim. And its old-fashioned management that did the trick. Luczo and his team in Scotts Valley, Calif., remade the 23-year-

in 1998, it spent \$30 million on a research center to scope out opportunities years into the future. One hit: Last year, after Maxtor pioneered a disk-drive market for consumer electronics gear such as MP3 players and video-game machines, Seagate moved in. Now it supplies drives for Microsoft Corp.'s Xbox game player. Much of the credit for the changes goes to Luczo and William D. Perkins, Seagate's chief operating officer. In mid-1998, Seagate's supply chain was clogged with too many parts because its disk-drive models shared few components. Even the screws holding the same things together were different. And some customers complained that Seagate didn't listen very well to what they wanted.

But went founder and CEO Alan F. Hart and other top execs, and Luczo and Watkins got busy. They introduced a quality-improvement program to cut costs. They revamped manufacturing plants so they were flexible enough to adjust easily to changes in demand and

new technology. And they cut the number of parts used to make different drives, while paying suppliers to get parts to them faster. "They've really homed in on drive manufacturing and not gotten distracted by other ventures," says David Reinsel, a research manager at market researcher IDC.

Customers seem to like the new Seagate. Dave Craig, a supply manager for storage giant EMC Corp., says Seagate has been more attentive in the past year. Craig, whose company is Seagate's second-largest customer after Hewlett-Packard Co., says senior managers from EMC and Seagate now meet for quarterly planning sessions that Luczo often attends. "Steve is much

more involved in the day-to-day operation," says Craig. "He has been very positive for that organization." And for EMC: Seagate has shaved months off the time it takes to make the drives, speeding EMC's time to market.

Hard work aside, Luczo also had some luck. Maxtor got bogged down in a merger when it bought Quantum

Corp. last year, then ran into delays with new drives. IBM has suffered with quality problems, which helped drop its market share to 10% in the first quarter of 2002, from 23% in 2001. "Since going private, Seagate has had all the chips fall their way," says IDC's Reinsel.

So why return to the public market if things have worked out so well in the shadows? For one, Seagate's private investors and top executives stand to gain handsomely from the deal. Silver Lake Partners and the Texas Pacific Group, which together own 65% of Seagate, picked up the core drive operation for \$2 billion in 2000, or one-fifth of Seagate's expected market value after the public offering. Luczo's 3.5% stake would be worth about \$350 million.

Mainly, though, going public will give Seagate quicker access to capital. That will be key as customers, always wary of one supplier who's dominant, think about hedging their bets by buying from competitors. As long as Seagate can afford what it takes to stay on that technology treadmill, the customers likely will keep coming back.

By Faith Keenan in Boston

THE INFO TECH 100 ANNUAL REPORT

Top Private Info-Tech Companies

COMPANY	LOCATION	SECTOR	2001 REVENUES MILLIONS	CHANGE FROM 2000	COMMENT
EMC	San Diego	Services	\$6,100	3%	Spending by Uncle Sam and major oil companies helped this IT services company keep growing during a tough year.
SEAGATE	Scotts Valley, Calif.	Computers	6,000	-9	The disk-drive maker has streamlined operations, but with a 17% drop in the storage market, its results would have been worse if rivals hadn't stumbled. Now, it's considering going public again.
RAYBAR	Clayton, Mo.	Distribution	4,800	-8	The optical-fiber glut slowed demand for basic telecom products like cables and connectors from this electronics distributor.
ANNEX	Fremont, Calif.	Computers	3,200	-13.5	The slump in tech spending took a toll on this maker and distributor of computer and telecom equipment.
INCORP	Fairfax, Va.	Services	1,960	9	Government contracts continued to keep this info-tech services company aloft.
HI	Somerset, N.J.	Services	1,730	24	Consolidation among competitors, plus an increase in outsourcing by companies, helped boost this procurement services provider.
AS INSTITUTE	Cary, N.C.	Software	1,130	1	Its niche—business-intelligence programs—was one of the sweet spots in a difficult software market last year.
HEWSONIC	Walnut, Calif.	Computers	1,000	-23	The maker of computer displays is moving fast into flat-panel screens, but saw sales slump as demand for PCs plummeted.
ANGSTON TECHNOLOGY	Fountain Valley, Calif.	Semiconductors	900	-44	It stopped making processors to focus on memory chips, then took a beating when memory prices plunged.
ODUS MEDIA	Westwood, Mass.	Services	606	-12	Demand for the company's supply-chain solutions lagged as customers sought other ways to slash costs.

Data: Company Reports, *BusinessWeek*



SCANDALS

A WHISTLE-BLOWER ROCKS AN INDUSTRY

Doug Durand's risky documentation of fraud at drugmaker TAP is prompting wider probes

In his 20 years as a pharmaceutical salesman, Douglas Durand thought he had seen it all. Then, in 1995, he signed on as vice-president for sales at TAP Pharmaceutical Products Inc. in Lake Forest, Ill. Several months later, in disbelief, he listened to a conference call among his sales staff: They were openly discussing how to bribe urologists. Worried about a competing drug coming to market, they wanted to give a 2% "administration fee" up front to any doctor who agreed to prescribe

TAP's new prostate cancer drug, Lupron. When one of Durand's regional managers fretted about getting caught, another quipped: "How do you think Doug would look in stripes?" Durand didn't say a word. "That conversation scared the heck out of me," he recalls. "I felt very vulnerable."

Durand didn't end up in stripes. Far from it. To protect his good name and, as he puts it, to "cover his rear," Durand began gathering the inside dope on TAP and feeding it to one of the country's leading federal prosecutors. It was the first step in what would become a six-year quest to expose massive fraud at the company. Durand's 200 pages of information were so damning that TAP pleaded guilty to conspiring with doctors to cheat the government. And last Oc-

tober, after negotiating a settlement for two years, federal prosecutors announced a record

DURAND: Of TAP's \$875 million fine, \$77 million is his to keep

\$875 million fine against the company. For his efforts, Durand won an unprecedented award of \$77 million, 14% of the settlement, as allowed under the federal whistle-blower statute. It wasn't just the 2% kickback scheme that got TAP in trouble. For years, TAP sales reps had encouraged doctors to charge government medical programs full price for Lupron they received at a discount or gratis. Doing so helped TAP establish Lupron as the prostate treatment of choice, bringing in annual sales of \$800 million, about a quarter of the company's revenues.

The government calculates that TAP bilked federal and state medical programs out of \$145 million throughout the 1990s. To get some sense of just how big TAP's fine is, consider that it is nearly nine times what Merrill Lynch & Co. agreed to pay in May after the New York Attorney General accused its analysts of issuing misleading investment research. The only penalty that comes close is the \$750 million that hospital chain HCA Inc. paid two years ago to settle criminal al-

Financial Services • Private Banking • Asset Management • Life and Pensions • Insurance • Investment Banking



INFLUENTIAL

Orchestrating assets around the world. Financially instrumental everywhere.

There are times when your position alone can invest you with power. When you're also allied to a bank that controls USD 800 billion for 15 million clients worldwide, you have something more. You have people's immediate attention.

www.credit-suisse.com

**CREDIT
SUISSE** | GROUP 360° FINANCE™

civil charges of Medicare-billing fraud.

So far, four doctors have pleaded guilty to accepting free samples of Lupron, billing Medicare for them, and pocketing the cash; they await sentencing. Six TAP executives and one urologist face trial for conspiracy to pay kickbacks and defraud Medicaid programs. None was available to comment. At the time of the settlement, TAP said: "Whatever may have happened in the past, we are determined that TAP today and tomorrow will live up to high standards of integrity and business ethics." It has since created an ethics-compliance program, and it declines to comment further. The two companies that formed TAP 25 years ago, Japan's Takeda

Chemical Industries Ltd. and Abbott Laboratories, issued similar statements in October and now decline to comment on the settlement.

Durand's successful suit comes as Justice Dept. officials, the Federal Trade Commission, and state attorneys general have all launched an assault against what they believe to be sales abuses by the world's largest pharmaceutical companies. Indeed, such accusations have forced the industry to try to reform itself. The Pharmaceutical Research & Manufacturers of America recently issued voluntary guidelines banning aggressive sales tactics. "Every company is taking a long, hard look at how it does business," says Glenna M. Crooks, president of health-care consultant Strategic Health Policy International Inc. in Washington, D.C., and a longtime friend of Durand's.

It's only recently that Durand, 50, has felt comfortable talking about his experiences as a whistle-blower. A plain-spoken man, Durand was one of eight children and was raised in a blue-collar neighborhood in Pawtucket, R.I. He and his wife Elizabeth, who were high

school sweethearts, clipped grocery coupons even when Durand was pulling in \$100,000 a year. He worked for two decades at Merck & Co., which vets every marketing campaign with its legal and regulatory teams.

His last position there was senior regional director. "We always took the high road under Doug—including considering pulling a drug off the market when the Food & Drug Administration ques-

ited a urologist who had received a big-screen TV from a TAP rep. Turns out TAP had offered every urologist in the country (there are 10,000) a TV, as well as computers, fax machines, and golf vacations. Durand says his anger

demands for information about other giveaways were ignored.

TVs weren't the most troubling freebie. Durand discovered that reps could not count for half of their Lupron samples, even though federal law requires it. A losing track of even a single dose could have resulted in a fine of up to \$1 million. Durand tried fixing the problem the TAP way. He offered an extra year's salary to the who kept accurate

records. It worked. But senior management soon killed the bonus offer, and the reps stopped following the rule. "Most of what I did there was resisted, undermined," Durand says. Hasegawa, who has returned to Takeda headquarters in Tokyo, declined to comment. At the same time, Durand says "some of the doctors were so cocky. They'd brag, 'Oh there's my Lupron boat, my Lupron summer house,'" referring to the fact that they had taken kickbacks or freebies and used them to buy some extravagance.

Durand grew increasingly concerned. Colleagues told him he didn't understand TAP's culture. He was excluded from top marketing and sales meetings. Then came the crack about how he would look in stripes. Durand's stomach knotted in fear that he would become the company scapegoat. Yet he felt trapped: If he left within a year he wouldn't be able to collect his bonus. He also doubted that anyone would hire him if he bolted so hastily.

In desperation, he called Crooks, who had been a colleague at Merck. They met at a secluded bar near the Philadelphia airport. Appalled at his tale, she told him to "get out as quick as you can." Her advice cracked Durand's tough exterior. "After keeping all this inside

“The idea of suing as a whistle-blower intimidated me. Nobody likes a whistle-blower. I thought it could end my career.”

tioned it," says a former co-worker.

Not so at TAP. The company had a numbers-driven culture; top reps could earn \$50,000 annual bonuses. They lavishly courted doctors with discounts, gifts, and trips. On his first day, Durand was stunned to learn that the company had no in-house counsel. At TAP, "legal counsel was considered a sales-prevention department," he says.

At first, Durand shrugged off such red flags. TAP had lured him with a salary of \$140,000, a promise of a \$50,000 bonus, and a big assignment. At that point, TAP was a niche player. Then-President Yasu Hasegawa wanted Durand to go after the mass market with treatments for prostate cancer and ulcers. "The job seemed like a great idea at the time," he says.

But Durand soon realized that Hasegawa wasn't really interested in change. When Durand talked about trying to earn the trust of doctors, reps rolled their eyes. At TAP's 1995 launch of ulcer drug Prevacid in Palm Springs, Calif., the main attraction was a party featuring "Tummy," a giant stomach that belched fire. "There was no science, no discussion of the drug," he says.

Just how little science would be used to promote the drug, Durand quickly learned. In Long Beach, Calif., he vis-

EXPOSING MASSIVE FOUL PLAY AT TAP

FIRST SUSPICIONS

Durand's concerns began soon after he joined: He asked to meet TAP's in-house counsel and was told the company didn't have one. Some 10 months later, he began documenting fraud at TAP.

WHAT HE FOUND

Sales reps for TAP's drug Lupron had offered every urologist in the country a big-screen TV. Worse, they handed out Lupron at cut-rate prices or gratis while inflating the Medicare-reimbursement price.

THE RESULT

In 2001, the federal government won an \$875 million judgment against TAP. Four doctors pleaded guilty to fraud and await sentencing. Six TAP execs and one doctor face trial for conspiracy to commit fraud.



CIO SUMMIT

BusinessWeek

| *Events*

EFFICIENCY, SECURITY, AND GROWTH IN AN AGE OF DISCONTINUITY

Watch Nightly Business Report
June 25, 26, 27, 2002
for interviews with CIOs
of America's leading companies

NIGHTLY BUSINESS REPORT

**Where America Turns
for Business News**

Weeknights on Public Television

Sponsored Nationally by:

A.G. Edwards
INVESTMENTS SINCE 1887



**Deloitte
& Touche**



Produced by NBR Enterprises/WPBT2
www.nbr.com

for months, I finally broke down and told my wife," says Durand. She had stayed behind in Pittsburgh to see their youngest daughter through her final year of high school.

Elizabeth Durand was terrified. She urged her husband to call the companies that had offered him jobs before he joined TAP, but the positions had been filled. Financial concerns weren't what scared her most, though. "I knew he wouldn't take the easy way out and just leave," she says. "He'd try to make things right."

Soon after, Durand began to secretly document TAP's abuses. For two months, he sneaked papers home to copy, staying up for hours to type explanatory notes. On Crooks's advice, Durand mailed his binder to Elizabeth K. Ainslie, a Philadelphia attorney with close ties to James Sheehan, an assistant U.S. attorney specializing in medical fraud. Ainslie was impressed with his material. "Many think they're whistle-blowers, but most are just disgruntled employees," she says.

Ainslie urged Durand to sue TAP under the federal whistle-blower program, which allows an insider to file a civil complaint alleging fraud against the government. Typically, the informant then meets with government attorneys; if they decide to proceed, the investigation is conducted in secret. Companies learn of it as the government issues subpoenas, but executives aren't supposed to know who blew the whistle. Usually, the company will negotiate a settlement to avoid a trial, as TAP did. If not, insiders can testify secretly against their employers.

It wasn't easy for Durand to decide to file a suit. "I didn't even know about the law when I first approached Ainslie," he says. "I wanted to leave a trail showing I was on the side of the government, not working to cover up fraud. The idea of suing as a whistle-blower intimidated me. Nobody likes a whistle-blower. I thought it could end my career." Indeed, whistle-blowers live for years as double agents with no guarantee that their personal risk will result in a trial, let alone a victory. "I asked myself all the time, is it worth taking Liz and the kids through this?" says Durand. "In the end, I always found myself believ-

ing that it was the right thing to do."

After filing the suit, Durand left TAP for Astra Merck in February, 1996, but wasn't supposed to tell his new employers about the case. For the next four years, the government conducted its own investigation into Durand's allegations, which included grilling him about the documents he had collected. It was an overwhelming experience at first. "I was put in a conference room in Philadelphia with all kinds of different federal agents," he says. "I didn't calm

has to testify in the trials of the TAP execs, five of whom used to work him. Durand doesn't worry too much about TAP, though he does "feel sorry for those indicted. His wife does. "Doug banged his head against the wall and nobody would listen," she says. "They knew what they were doing."

Durand's suit may well be the first of several that challenge potentially fraudulent practices in the drug industry. Schering-Plough Corp., Merck-Medco Managed Care LLC, the pharmacy-benefit management unit of Merck, and others have received subpoenas from the U.S. Attorney in Philadelphia. That investigation now focuses on whether drug makers gave discounts or kickbacks on certain drugs to companies

“Some of the doctors were so cocky. They'd brag, 'Oh there's my Lupron boat, my Lupron summer house'”

down until the end, when everyone started greeting my attorney as an old friend. It was then I knew that I was in good hands." Because the government often asked Durand to testify on just a day's notice, he had to scramble to make excuses to take off. He almost blew his cover early on when he ran into a group of Astra Merck executives in the Chicago airport; they thought he was vacationing in Orlando. "It was wrenching, terrible," recalls Durand. "I never knew if someone would discover me as a whistle-blower. And the government was always cryptic— inching along."

Nor is Durand's ordeal over. He still

such as Merck-Medco while charging higher prices to the government. Those involved say they are cooperating with the inquiry. And Merck-Medco says its actions were legal. "Thanks to Durand and other whistle-blowers, there's a revolution coming in how drug companies set pricing," says James Moorman, president of public interest group Trial Lawyers Against Fraud in Washington.

At the same time, state attorneys general are going after drugmakers that may be promoting unapproved uses of their products. Pfizer Inc., for example, has disclosed that a number of state attorneys general, as well as the U.S. Attorney in Boston, are looking into its marketing of the popular epilepsy drug Neurontin. Those inquiries appear to follow allegations by a whistle-blower. Pfizer says it is cooperating with the authorities and points out that the inquiries concern Warner-Lambert Co., which it acquired in 2000. And the Federal Trade Commission is conducting a study of the questionable legal maneuvers drugmakers often use to delay competition from generic rivals.

Durand is more than happy to have left the industry behind. After collecting his \$77 million—and paying \$28 million in taxes—he retired to West Florida to be near his parents. They still like to shop at Wal-Mart, so he takes them there every week. And Durand and his wife continue to clip grocery coupons from the Sunday newspaper. But he did buy a new Lexus, a small reward for a reluctant millionaire.

By Charles Haddad, with Amy Barrett, in Philadelphia



DOUGLAS DURAND

BORN Aug. 22, 1951, Pawtucket, R.I.

EDUCATION Degree in pharmacology, University of Rhode Island, 1974.

FAMILY Married to high-school sweet-

heart Liz; they have two grown daughters.

CAREER PATH Worked 20 years as a sales executive at Merck before joining TAP as top sales manager in 1995. Filed a whistle-blower suit in 1996.

***Now, simply the best
online experience ever!***



- ✓ Now, your favorite music when you want it with Radio@AOL.
- ✓ Now, your local news, weather, entertainment, movie show times and more.

As Always:

- ✓ Your security and privacy are protected on AOL.
- ✓ FREE customer service 24-hours a day, on the phone or online.
- ✓ Parental Controls help safeguard your kids online.
- ✓ There's never been a better time to join!

Call 1-800-4-ONLINE
today for FREE AOL 7.0 software
and 1000 hours to try it out! for 45 days



So easy to use,
no wonder it's #1

Or pick up your **FREE AOL 7.0** software at these retailers:

CAN CALPERS AFFORD TO THROW STONES?

The pension fund is rife with potential conflicts of interest

The California Public Employees' Retirement System (CalPERS) earns its reputation as the world's corporate governance bulldog. With the annual meeting season in full swing, the nation's largest pension fund has been using its market clout to press for change at such poor performers as Lucent Technologies, Qwest Communications International, and Gateway. CalPERS' brand of activism has such a powerful impact on stock prices that finance professors have dubbed it "the CalPERS effect."

Now, the \$149 billion fund may need a dose of its own medicine. CalPERS, which has 1.3 million beneficiaries among current or former state employees, has developed a rash of governance problems. Revelations that the fund knew about—but never blew the whistle on—Enron Corp. Chief Financial Officer Andrew S. Fastow's self-dealing partnerships were a big embarrassment. The board is increasingly pushing social and political criteria in investment decisions. And there has been a spate of high-level resignations. All this caps a more-than-two-year period when CalPERS' investment performance has trailed that of other large pension funds.

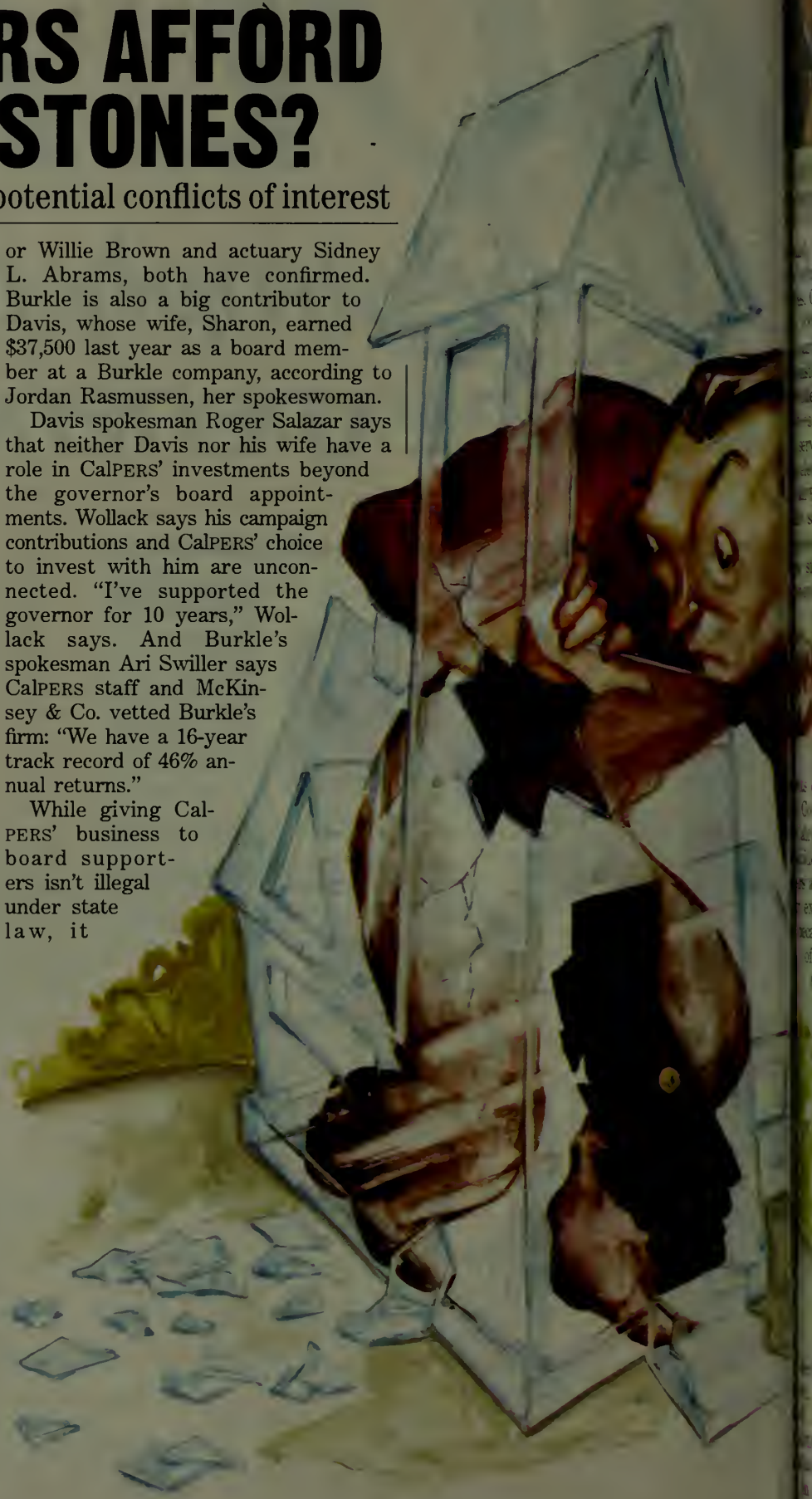
Just as troubling, CalPERS' board seems to have developed a blind spot for potential conflicts of interest. In March, CalPERS put \$100 million into Premier Pacific Vineyards Inc., which buys land for growing grapes. The co-CEO of that firm, Richard Wollack, is a major fund-raiser for California Governor Gray Davis, a Democrat, who names three CalPERS' board members.

CalPERS also committed more than \$760 million in the past year to two funds created by Los Angeles billionaire Ronald Burkle, who, with his wife, has contributed to the campaigns for state office of two CalPERS board members, Treasurer Philip Angelides and Controller Kathleen Connell, according to the California Secretary of State's office. He previously employed two other board members, San Francisco May-

or Willie Brown and actuary Sidney L. Abrams, both have confirmed. Burkle is also a big contributor to Davis, whose wife, Sharon, earned \$37,500 last year as a board member at a Burkle company, according to Jordan Rasmussen, her spokeswoman.

Davis spokesman Roger Salazar says that neither Davis nor his wife have a role in CalPERS' investments beyond the governor's board appointments. Wollack says his campaign contributions and CalPERS' choice to invest with him are unconnected. "I've supported the governor for 10 years," Wollack says. And Burkle's spokesman Ari Swiller says CalPERS staff and McKinsey & Co. vetted Burkle's firm: "We have a 16-year track record of 46% annual returns."

While giving CalPERS' business to board supporters isn't illegal under state law, it



CALPERS' COZY CONNECTIONS

PHILIP ANGELIDES

California state treasurer; up for reelection in November. Took more than \$430,000 in campaign funds from unions in past two years. Has pushed CalPERS to invest in countries meeting social criteria such as having an active labor movement.



RICHARD WOLLACK

Co-founder of Premier Pacific Vineyards, an investment firm specializing in vineyards, in which CalPERS invested \$100 million in March. A longtime supporter of Governor Gray Davis, he hosted a \$2,500 per head fund-raiser for him in May.



RONALD BURKLE

The Los Angeles billionaire has donated to campaigns of two CalPERS board members and to Davis, and he has employed two board members. CalPERS is investing \$760 million with Burkle, a money manager.

mainly creates the appearance of political influence in CalPERS' investment decisions. CalPERS' investment staff of more than 100 makes recommendations. But the board decides where the money goes. The board consists of the state treasurer and controller, the three gubernatorial appointees, one legislative appointee, and a service representative, plus six members elected by the fund's constituencies. CalPERS spokeswoman Patricia K. Macht says board members can't vote on proposals from companies that have paid significant income in the past 12 months. The rule doesn't apply to campaign contributions. "It's legal, but it's alarming," says

Jim Knox, executive director of government watchdog California Common Cause. All members voted on the Burkle and Wollack investments except Abrams, who was absent, and Connell, who abstained, Macht says. CalPERS maintains that it's entirely coincidental that some investment managers are campaign contributors. Burkle, for example, got his first \$200 million because his track record outshone that of 66 managers who responded to a

CalPERS talent call. CalPERS staff chose Burkle's next fund and the Premier Pacific investment after months of analysis, Macht says. CalPERS, she adds, discloses all dealings between board members and contractors.

The issue has come up before. Macht says that CalPERS tried to ban outside fund managers who contributed to board members' campaigns from doing business with the fund in 1998, but a Sacramento County Superior Court ruled it illegal. The judge's decision was based on a procedural point, Sacramento attorney Charles H. Hall Jr., who argued the case for CalPERS. The state legislature could still outlaw such conflicts, he says.

In any case, say longtime fund

watchers, CalPERS' investment strategy has become increasingly influenced by the political priorities—notably of its union-affiliated members. "There is an old guard who wants to invest in anything that makes money and a new guard that wants to pursue a social agenda," notes James McRitchie, an official of the state Toxic Substances Control Dept. who operates an independent Web site with information about CalPERS called perswatch.net.

Critics say the board members are getting in way over their heads, and should rely on the professional investment staff. Few board members have finance backgrounds, and none is an experienced investment manager. "There's just too much temptation for politicians to meddle," says Terry Sutherland, a state business tax assessor and plan member who watches the fund closely. "None of these board members is Warren Buffett."

A driving force behind the social investing trend is Treasurer Angelides, a Democrat who joined the board after the 1998 elections. One of his first moves, in October, 2000, was to divest the fund of tobacco stocks. Angelides has also pushed the fund to invest heavily in the state. Over the past two years, CalPERS has put more than \$1.7 billion into local venture capital, biotech, real estate, and private businesses in poorer parts of the state. The vineyard deal wasn't made under this program, but wine is a big local industry. Some 16% of CalPERS' assets are now invested in California, up from 13% last year.

Few state funds, say pension experts, have such programs. Wisconsin puts just 3% of its money in the state. Gary Bruebaker, chief investment officer at the

Washington State Investment Board, says state pension funds often get pressure to invest locally: "Our response was always, 'We are fiduciaries, and we'll do whatever makes the most money.'"

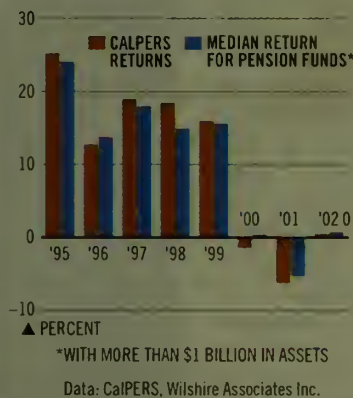
Another Angelides initiative is a program to screen developing countries for such criteria as a free press, an independent judiciary, and an active labor movement. Art Pulaski, executive secretary and treasurer of the California Labor Federation, a coalition of union groups, says his organization helped Angelides develop his screens and lobbied the CalPERS board to support them. Pulaski insists that the goal is to improve returns.

After the board passed a preliminary version of the screening program in November, 2000, Pulaski's group called the vote a "historic union victory at CalPERS." Angelides received more than \$430,000 in campaign contributions from unions while the plan was being developed.

Angelides, who didn't respond to requests for comment for this article, has told *BusinessWeek* in the past that his primary goal is superior returns. He also said he wanted to dump tobacco stocks because the companies faced big lawsuits. He said investment returns from developing countries with better social conditions should exceed those of other emerging markets. Investing in California boosts the state economy, he noted.

So far Angelides' initiatives don't appear to have done much for the fund's returns or goodwill. The tobacco divestiture proved ill-timed. After languishing for years, tobacco stocks soared. The social screening caused an uproar in blacklisted countries, and CalPERS had to reinstate the Philip-

HOW CALPERS STACKS UP AGAINST ITS PEERS



PHOTOGRAPHS BY RICH PEDRONCE/LEAP/WIDE WORLD; THOR SWIFT/SAN FRANCISCO CHRONICLE; AL BEHRMAN/AP/WIDE WORLD; CHART BY ALBERTO MENA/BW

panies after the data used to exclude it proved flawed.

CalPERS' returns could use a boost. In 2000 and 2001, the fund lagged its peers by an average of one percentage point, according to Wilshire Associates Inc.—a big gap, since 45% of CalPERS money is in market-tracking index funds. Assets have shrunk from \$172 billion to \$149 billion. CalPERS isn't in financial danger—assets more than cover projected liabilities. But it still has underperformed its peers by about a third of a point this year.

CalPERS' new chief investment officer, Mark Anson, blames demographics and market conditions—not socially responsible investing—for the fund's underperformance. CalPERS has a riskier strategy than many of its peers, he says, because it has a relatively young mix of beneficiaries. That explains its bigger share of stocks—62%, vs. 59% for the median large fund. CalPERS also puts much more of its portfolio abroad than its peers—22%, vs. 11%.

This asset mix paid off in the 1990s. Over the past 10 years, CalPERS returned an average 9.97% a year, vs. 9.8% for its peers. But lately its investments have been losers. Anson says the board reevaluates asset allocation every other year—the next occasion is August. Anson won't tip his hand, but he does say projected returns on stocks will likely come down, and so may CalPERS' percentage of assets in stocks.

It's too soon to say how social investing affects performance long-term. Even so, CalPERS is likely to embrace it more strongly. Two top CalPERS board members—both moderating influences—are leaving at yearend: Board President William D. Crist and Michael Flaherman, who chairs the investment committee. Crist, 63, is retiring. Flaherman says he's seeking “new challenges.” The three candidates gunning to replace Crist say they support the direction the fund is heading on social issues. It's unclear whether there will be much balance from the executive side. On May 15, CalPERS Chief Executive James E. Burton said that he, too, was looking for a new job. Burton is considering an undisclosed post in the private sector.

At a time like this, investors desperately need to see a few role models among the major financial players. The champion of corporate governance should smell like a rose. Instead, there's an unpleasant whiff of pork-barrel politics rising from the board. Can anyone produce a CalPERS effect on CalPERS?

*By Christopher Palmeri
in Los Angeles*

COMMERCIAL FINANCE

THE ANTI-KOZLOWSKI TREATMENT

After Tyco, can veteran CEO Gamper rescue CIT yet again



CIT Gamper has to sell or spin off CIT in the toughest market in years, as bad news from the parent keeps coming

Behind the dismantling of Tyco International Ltd. is the tale of two very different chief executives. The story of Tyco's flamboyant CEO, L. Dennis Kozlowski, 55, who resigned amid allegations of tax evasion is well known. Lesser known is the tale of inveterate survivor Albert R. Gamper Jr., CEO of CIT Group Inc., Tyco's finance unit. Fifteen months ago, he accepted a buyout bid from Tyco and promised to stay for three years. Now, at age 60, he is once again facing an uncertain future for a company he has already led through three owners, one initial public offering, and 20 years of change.

With the sale to Tyco in 2001, Gamper seemed to have done a career-capping deal. Tyco purchased CIT for \$1 billion in cash and stock, a 50% premium. The deal was supposed to bring customers to CIT from Tyco's industrial holdings, providing a flow of new business for the finance company. No Gamper must sit tight as Tyco tries to sell or spin off the company in the toughest market in years, while bad news from Tyco rains down around him.

The clouds lifted a bit for Gamper on June 12, when the Securities & Exchange Commission gave Tyco the green light for a CIT IPO valued at \$5 billion to \$6 billion. Tyco had originally filed for an IPO of CIT on Apr. 25 that valued the company at \$7.15 billion. But the IPO was held up after the SEC raised questions about CIT's goodwill accounting. The SEC only approved the IPO after Tyco agreed to slice the goodwill or premium attributed to CIT on its books by \$4.5 billion.

The SEC decision will also brighten CIT's credit picture. When the IPO looks uncertain, Standard & Poor's and Fitch had lowered CIT's long-term credit ratings, citing liquidity and corporate-governance concerns at Tyco. Some institutional investors still think the company could raise as little as \$4 billion in the IPO. Even if Tyco manages to sell CIT for \$5 billion, the parent company will have to book a big loss on the sale.

For Gamper, whom one former co-



- 1 This is the **CUSTOMER**
- 2 That accessed the **Account**
- 3 That linked with the **Database**
- 4 That verified the **Deposit**
- 5 That released the **Funds**
- 6 That paid the **Loan**
- 7 That updated the **Records**
- 8 That triggered the **Statement**
- 9 That completed the **Process**
- 10 That lives in the **Business Integration Software**
- 11 That we built **Together.**



CROSSWORLDS

CrossWorlds has joined with IBM to provide comprehensive business integration from your first step to the finish. Our technology powers WebSphere® to not only just connect your business — but make all your processes work together. For the whole story, visit ibm.com/websphere/crossworlds



**IT'S A DIFFERENT KIND OF WORLD.
YOU NEED A DIFFERENT KIND OF SOFTWARE.**

league calls "the rock you build the church on," it has been a difficult ride. Competitors say that they're starting to see CIT résumés—and customers. The company lost its access to the commercial paper market earlier this year. Total managed assets—loans on CIT's books plus securitized loans from which it still earns fees—slipped \$1 billion in the three months ended March 31. Once independent, CIT "may prove to be more of a turnaround than anticipated," says Prudential Securities analyst Nicholas P. Heymann. Gamper, through a spokeswoman, refused to be interviewed for this story, because the company is in a quiet period before a securities offering.

Longtime CIT watchers say that Tyco's accounting woes and Kozlowski's indictment for evading sales taxes on his art purchases are unfairly tainting CIT and Gamper's record. "They [CIT execs] are really very disciplined," says Richard Schmidt, managing director at S&P. Adds Mark Girolamo, a Barclays Capital Inc. analyst: "The CIT franchise is doing business, and management has kept the proper focus." The quality of the company's loan portfolio is still comparable to its peers', say rating agency analysts.

Those who know Gamper well also say that he is the anti-Kozlowski. The two men have a few things in common: Both are from modest backgrounds and attended non-Ivy League colleges in New Jersey. But the similarities end there. Tyco's former CEO landed in hot water for his handling of a string of acquisitions, both personal and corporate. As his conglomerate grew through aggressive purchases, so did his collection of toys—helicopters, one of the world's finest yachts, and a string of homes. His wealth took him into Hollywood circles: Kozlowski was honored at a Christopher Reeve Paralysis Foundation benefit at the Waldorf-Astoria in November, where he posed for photos with actors Kevin Bacon and Kyra Sedgwick.

Gamper, on the other hand, is so straitlaced that longtime business associates joke about it. "You look up 'boring' in the dictionary and there's a picture of Al," quips one New York-based banker who has known Gamper for decades. Kinder associates call him "grounded" and "honest." The Brooklyn native has lived in the same suburban New Jersey home for years. His causes are hometown ones—he's vice-chairman of the Rutgers University Board of Trustees. The Executive Women of New Jersey recently named him Man of the

Year at a dinner at the AT&T Learning Center in Basking Ridge, N.J.

Earlier, Gamper was a rising star at Manufacturers Hanover Corp. He was appointed to the strategic planning group in his early forties. He was also viewed as one of five possible successors to then-CEO John F. McGillicuddy. It was

PORTRAIT OF A SURVIVOR

Despite CIT's turbulent history, CEO Al Gamper has hung on for nearly two decades:

1984 Manufacturers Hanover buys CIT from RCA for \$1.5 billion.

Bank exec Gamper orchestrates deal.



1987 Gamper put in charge after the unit underperforms.

1989 Cash-strapped MH sells 60% of CIT to Japan's Dai-Ichi Kangyo Bank.

1989-1997 While competitor GE Capital goes on buying spree, Gamper emphasizes slow internal growth.

1997-1998 Dai-Ichi spins off its CIT stake in two

offerings. Tech-crazy markets react coolly.

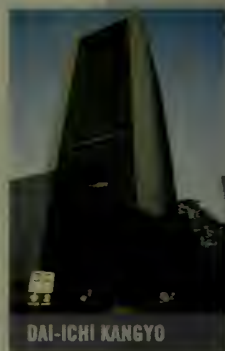
1999 Gamper makes first big buy—Toronto-based finance company, Newcourt Credit—despite its last-minute writedown.

2001 Tyco buys CIT for \$9.5 billion, keeping Gamper as CEO.

2002 JAN. Tyco says it will split into four companies, CIT among them.

FEB. Tyco reverses course but goes ahead with CIT spin-off.

JUNE SEC approves CIT IPO. Tyco estimates it will fetch up to \$5.8 billion.



DAI-ICHI KANGYO



THE TOO-GRAND ACQUISITOR: KOZLOWSKI

Gamper who decided Manny Har should buy CIT for \$1.5 billion from RCA. The company, founded in 1908, introduced the notion of auto finance in 1911 with loans on Studebakers.

But by the mid-1980s, CIT had become a sluggish, top-heavy institution. In 1987, CIT's earnings failed to meet expectations, setting off a ratings downgrade scare for the bank. Gamper took the task of turning it around. "It was a classic case of 'You bought it, now you go make it work,'" says a bank analyst who worked closely with Gamper at the time. Gamper went at it with vengeance. "We're going to go through those extra layers [of management] like a hot knife through butter," he said in a 1987 interview with *American Banker*. The next year, CIT began a 12-year run of earnings growth.

That didn't stop the company from changing hands. When Manufacturers Hanover needed to raise cash quickly in 1989, it sold 60% of CIT to Japan's Dai-Ichi Kangyo Bank Ltd. in a deal that valued the finance company at \$1.5 billion. In 1995, Dai-Ichi Kangyo picked up an additional 20% from Chemical Bank, which bought Manufacturers Hanover. In 1997, CIT was spun off in an IPO that sold 20% of the shares. The Japanese parent later sold the rest of the shares.

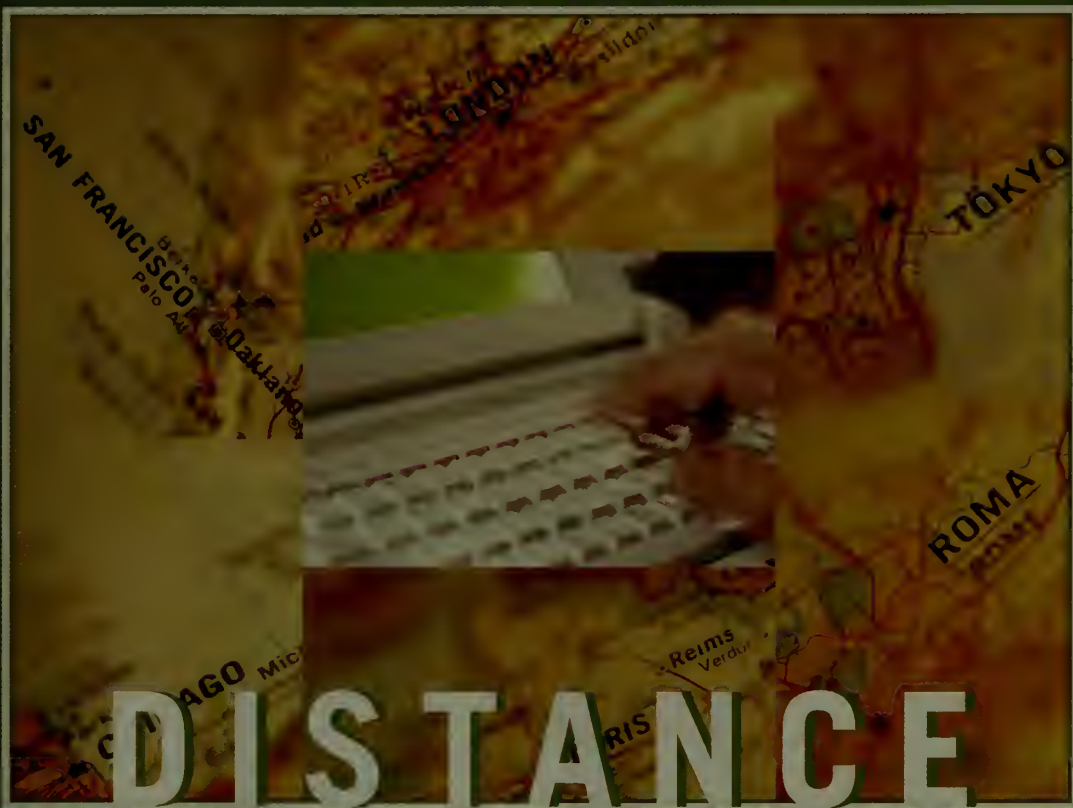
Despite CIT's earnings record, Gamper still struggled to interest investors in the slow-growing company that lent to businesses such as trucking and forest products in the tech-crazed '90s. Analysts criticized CIT for not growing through acquisitions such as rival GE Capital Corp. In 1999, Gamper succumbed to the pressure, purchasing Toronto-based tech financier Newcourt Credit Group Inc., in a move that doubled CIT's assets, although proved disastrous. Just before the deal closed, Newcourt surprised the market with a \$1 billion writedown. CIT's stock

fell 50% to just \$13 a share and never fully recovered. That must have made a deal like Tyco all the more attractive, especially since Kozlowski offered Gamper a 50% premium.

Though skeptical at first, Gamper ultimately decided to embrace Tyco. The move turned out to be his biggest

lapse of judgment. But now, with the go-ahead for an IPO, the ultimate survivor has another chance to show that he can once again heal his battered company—this time on his own.

By Heather Timmons in New York with William Symonds in Boston



DISTANCE LEARNING 2002

Target 5.4 million prospects worldwide*

with BusinessWeek's Distance Learning Advertising Directories.

It's an ideal opportunity to introduce innovative new programs to a worldwide professional audience and expand your sphere of influence.

To learn more about flexible advertising opportunities, contact:

Telephone:

1 800 424-3090

Fax:

1 312 464-0512

E-Mail:

patrice_serret@businessweek.com

Issue Date:

August 5, 2002

December 2, 2002

Closing Date:

June 24, 2002

October 14, 2002

Editions:

North America and International

Reserve Space Now

*2001 Fall MRI; BusinessWeek estimate for international.

BusinessWeek

www.businessweek.com

The McGraw-Hill Companies

MUTUAL FUNDS

JANUS: FROM RED-HOT TO RED-FACED

But Stilwell insists it doesn't want to unload its problem child

For the last couple of years, Thomas H. Bailey and other top honchos at high-flying mutual-fund manager Janus Capital Corp. have wanted nothing to do with the folks at their parent company, Stilwell Financial Inc. Like the trailblazing high-tech outfits they invested in so heavily, the Janus managers wanted to be on their own. Being associated with a company that sprang from an old railroad, Kansas City Southern, couldn't help them, they figured. Relations, as Stilwell officials tersely admitted in their latest annual report, have been "strained."

Now, with its high-tech winnings a distant memory and button-down investing again in style, Janus is dragging down Stilwell. Chief Executive Officer Bailey roiled the waters anew on June 12 when he stepped down from the top post, 33 years after he founded the outfit. He'll keep the chairman's job for now, but he's leaving at a time of crisis: Since 2000, Janus' assets have been cut in half, to \$160 billion, while Stilwell's stock price has plunged to 19 from 50. With 87% of its net income coming from Janus, Stilwell's earnings fell a dizzying 54% last year, to \$302.3 million. In the first quarter, the setbacks continued as Stilwell's profits slid 13%, to \$97.2 million.

Furthermore, sale rumors are swirling. They've picked up steam after some of Janus' investment missteps—such as taking big stakes in Enron and Tyco International—have come to light. And Janus' once-vaunted investment gurus now have "egg on their faces," says Brian Portnoy, analyst at Chicago fund researcher Morningstar Inc.

So will Stilwell managers sell their problem child? Nope, they say. Despite talk that such financial giants as American International Group might want to buy, Stilwell CEO Landon H. Rowland vows to keep Janus. "Top-line



SHOW OF FAITH: Bailey cashed out his stake in the fund company for \$1.2 billion, then quit as CEO

growth will return as markets recover," he says.

Plenty of skeptics don't see it that way. If the market continues to slide, impatient investors will be less likely to wait for the promised recovery. "If Stilwell stock takes an even more terrible beating, a buyer could emerge, especially given Janus' high-profile brand name," says Burton J. Greenwald, a mutual-fund consultant in Philadelphia.

TOUGH TIMES AT JANUS

The Biggest Janus funds badly lag their peers—and their own boom-year records

FUND	RANK AMONG PEER GROUPS*	
	2002**	1999
JANUS FUND	29	28
WORLDWIDE	86	14
TWENTY	83	13
MERCURY	84	5
OVERSEAS	92	8

*On a scale of 100

**Through May 30

Data: Morningstar Inc.

But Janus' weaknesses may give a buyer pause. This year, investors have yanked out \$4.2 billion, according to fund-research firm Lipper Inc. Although that's a tiny share of the firm's remaining assets under management, Janus is still losing more money in withdrawals than any of 15 large-fund family rivals. Janus is the nation's sixth-largest fund group.

And on June 11, Moody's Investor Service cut Stilwell's debt outlook to negative from stable, citing the risk of withdrawals.

Morale at Janus began to drop a year when Bailey cashed out his 1% stake for \$1.2 billion. The move also hurt Stilwell's finances. On Apr. 30, it had to pony up \$614 million after investors forced the company to buy back a convertible bond issued to finance just over half of Bailey's shares. Instead of holding

on to a zero-coupon bond that could be converted into stock, investors wanted an immediate cash payment. Stilwell sweetened the bond by offering 4% interest, but so many as 88% of the investors insisted on cash. Bailey declined comment.

Through all this, the investment savvy of Janus managers has been cast badly into doubt. They held large positions in stocks such as Intel, Cisco Systems, and America Online, big winners in the late 1990s. But the collapse of tech and telecom eroded their gains. And the Enron and Tyco bets have made a mockery of the firm's claim that its managers are deeper than their rivals.

Before investing in companies, Janus' managers have been laboring to restore their reputations.

In February, they named Henry Young Hayes, a senior manager, as managing director of investments. Responding to criticism that managers are too independent, Hayes now coordinates portfolio assignments and strategy. Stilwell also runs the \$20 billion Janus Worldwide and the \$5 billion Janus Overseas funds. Janus also named James Goff as director of research. Goff had managed the Janus Enterprise fund, which had declines of 40% in 2001 and 30% in 2000.

Janus has taken stakes in more stable companies—among them potential acquirer American International Group and Warren E. Buffett's tech-averse Berkshire Hathaway. "We have broadened our coverage in many different industries and are more flexible in finding interesting investments," says Goff. Stilwell's performance hasn't improved for many of its funds.

With Bailey heading for the door, Stilwell will now have an opportunity to unseat a vamp troubled Janus from the top dog. Unless, that is, the company is forced to sell first.

By Pallavi Gogoi in Chicago

ONE POLICY, INDIVISIBLE

FOR *all* THE BELONGINGS *you* HOLD DEAR.

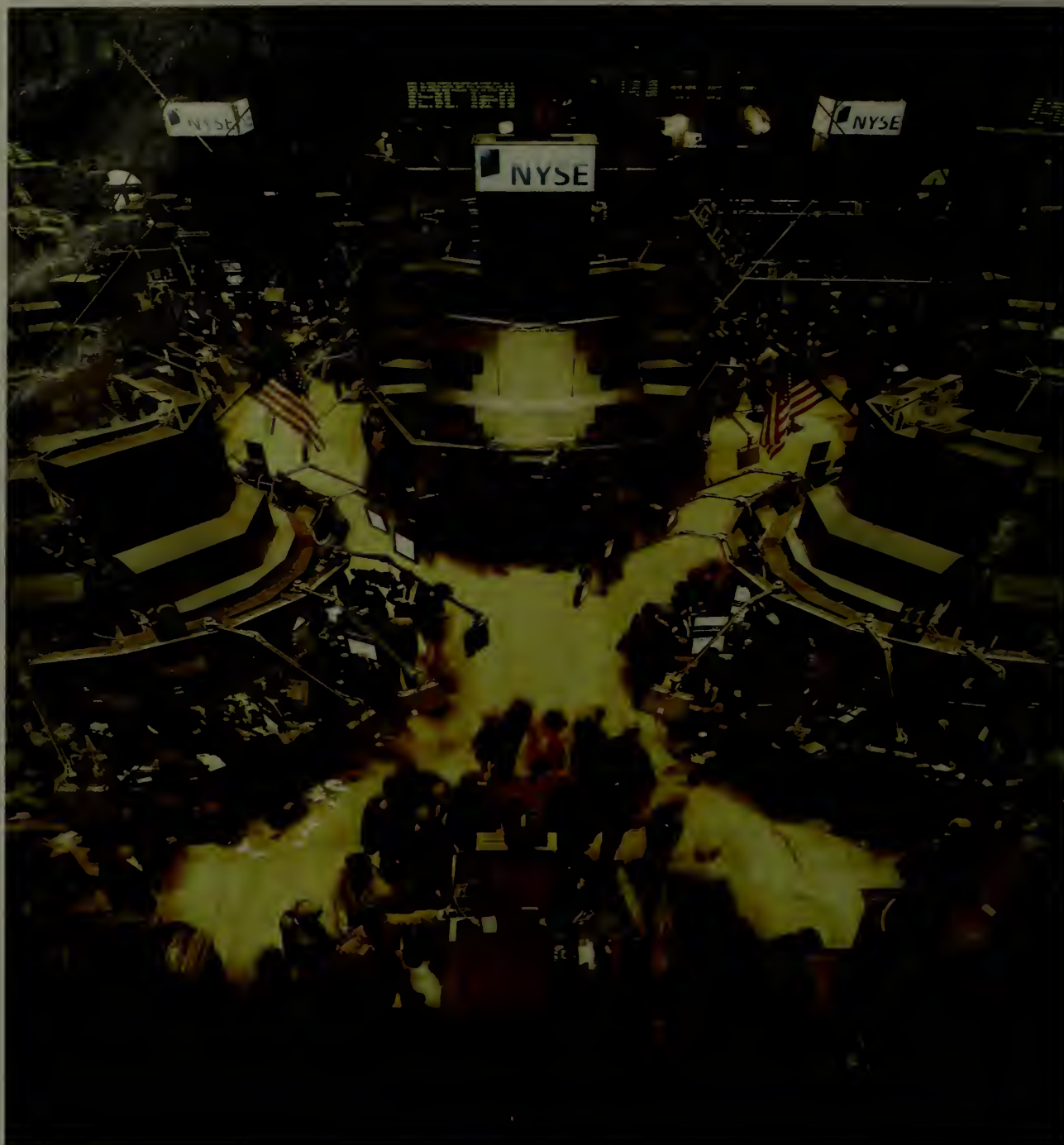


Your home. Your minivan. Your computer.
Your mountain bike. Your engagement ring.
Your Personal Digital Assistant. They're
all protected with one unique insurance
policy. THE ENCOMPASS UNIVERSAL
SECURITY POLICY. End the tyranny and
inconvenience of separate policies. Ask your
Independent Insurance Agent today.

TO FIND THE AGENT NEAREST YOU
call toll-free 1-866-760-6050
or visit encompassinsurance.com/info



LIBERTY, JUSTICE, AND
REALLY GOOD INSURANCE



When nearly half of the Fortune® 1000
count on you, a pattern starts to emerge.

When leading businesses need a wireless partner to keep things moving, they turn to us. That's why we've emerged as the number one wireless carrier for business data users. With Cingular, you get everything from business calling plans and corporate email to interactive messaging and CRM solutions—all built around your company's specific needs and goals. Maybe it's time you noticed the shape business is taking to express itself. To see how we can build a wireless solution around you, give us a call at 1-866-446-7599 or visit us at www.cingular/business.com. Also, feel free to download our "orange" paper, *Executive Guide to Enterprise-Wide Wireless Data Strategies*, when you visit our website.

 **cingular**
WIRELESS

What do you have to say?

BusinessWeek

Investor

MAKING LIFE RICHER

**Managing
Your
Money
Manager**



■ **Trade in Your
Car Lease**

■ **Hers: Closing
The Pay Gap**

■ **Barker: A Hot
Bread Stock**



Managing Your Separately Managed Account

Investors must be active if they want their money's worth

BY MARA
DER HOVANESIAN

When Charles Wright, 64, retired from United Parcel Service in 1995, he had a handful of stocks, a few laggard mutual funds, and a pushy broker hungry for commissions. So in March, 1998, he took his \$128,500 and rolled it into a separately managed account with Salomon Smith Barney. As with a mutual fund, he would have a pro taking care of his nest egg. Yet he would also own each stock in his name and could have a say in both the portfolio makeup and in when gains and losses would be realized—which could save on taxes.

From the start, Wright wanted more than the prepackaged portfolio offered by the management company, Citigroup Asset Management, which, like SSB, is owned by Citigroup. He asked for shares of Dell Computer, which wasn't on any of the managers' buy lists. And he later added a combined tech and biotech fund to spice

things up. Pleased with the results, he put more of his money into the program. He also negotiated a management fee lower than the standard 3%—how much lower he won't say—for the whole lot, worth \$925,000. The original account, worth more than \$234,000, has averaged returns after fees of 17.5% a year. "I know just enough about investing that I don't want to handle my own money," says Wright of Port Ludlow, Wash. "But I want to be in charge."

The separate-account segment is one of the fastest growing in the financial-services industry. Investors have some \$430 billion invested in such accounts—and that's forecast to hit \$680 billion in the next three years. But most of these investors aren't as hands-on as Wright: Only 15% tailor their portfolios with favorite stock picks, according to Cerulli Associates, a financial-services research firm. And only a third of all taxable accounts—representing about half the asset base—gets the much-vaunted tax treatment these vehicles are supposed to provide.

Investment technology has made the separately managed account available to investors with low six-digit sums, as opposed to the \$1 million or more that was once necessary. In other words, you might think you have bought a custom portfolio, but thousands of other accounts

look like yours. Unless you continually make your needs and desires known, your account won't be personalized. And without that touch, you have little more than an overpriced mutual fund.

Of course, it's not as if you can pick up the phone and arrange face time with money managers. The financial adviser who enrolled you acts as the go-between, but you are ultimately the one responsible for watching both. "People forget how important the ongoing management is," says financial planner Chris Dardaman Jr. of Polstra & Dardaman in Norcross, Ga. "They've kept these accounts for years, and a lot of them aren't so good anymore." So if you have one of these accounts, consider the following:

■ **Revisit your original plans.** A lot of time went into setting up your account. You and your financial adviser pored over managers' track records, gauged your risk tolerance, and divvied up the money accordingly. But a manager's performance can deteriorate. Make sure the reasons for choosing the original manager or asset-allocation strategy are intact.

If individual managers within the account have trailed their peers, it may be time to hop for new talent. "The question is, are they just having one bad year or did they fundamentally change?" says Dardaman. For instance, some value managers lagged during the bull market and tried to recover by buying growth stocks. Then they fell behind their peers when value came back. Not good.

Sometimes, entire investment teams up and leave, or a competitor buys out the management company; either is a red flag. "We've terminated in excess of 20 managers in the past two years," says Len Reinhart, chairman of the Lockwood Financial Group, which matches separate account investors with money managers. "If we think some of the critical people have departed, we don't give the management company a chance. Let them bring in new people, and we'll see if it works."

■ **Review your asset allocation.** Suppose a few years ago you wanted 50% in U.S. stocks, 25% in international equities, and 25% in bonds. If you've done nothing since, that mix is probably awry, and you own a lot more bonds than you planned. The adviser who put you into the account

should have taken steps to put your allocation back in line, but that may not happen automatically. Initial target allocations may no longer work, either. Say you now have a job with a computer company and get company stock in your 401(k). You run the risk of being overexposed to the tech industry.

■ **Put stocks "under the line."** Maybe you decided your managers are doing a fine job after all and, in fact, you want to turn over a handful of stocks you've been tending to yourself. If so, do this very carefully. Managers have been known to sell such stocks because they don't follow them or they don't fit their strategy. That action could trigger an unwanted tax bill. Find out if your manager is willing to tend to these stocks "under the line." That means you won't pay a fee on those assets, but they'll be included on your statement so you can see all your holdings in one place. There's another advantage: Your manager may be ready to buy stocks you already own outside the account. If they're all in one account, you're less likely to be doubling up.

■ **Demand attention to tax issues.** A few inquiries about tax management can do you much good. Keeping an eye on market dips—the best time to take advantage of losses—and it will be evident how deft your manager has been. Wright directs managers to take losses, which he uses to offset gains every month when he sells off UPS stock. Investors should also inform their manager of any circumstances, such as a real estate transaction, that may affect tax returns at yearend. "A client who had significant income from an event outside his separate account might need his manager to generate some capital losses to offset that," says financial planner Louis

Kokernak of Haven Financial Advisors in Austin, Tex. "That way the manager can weigh the tax consequences of a sale against the portfolio's need for diversification."

■ **Reduce your fee.** The fee for the average new account of \$225,000 is a hefty 3%—not that investors need pay that much. Often, you can get a lower fee—averaging just under 2%—based on your account size. But if you're not pleased with your manager's performance, don't be afraid to ask for a reduction. Fees "are negotiated at the discretion of the individual separate-account rep," says Cerulli analyst Jack Rabun.

Separately managed accounts hold out the promise of a customized investment portfolio. But they're not for hands-off investors: If you don't provide input to the managers, you'll be getting less than you're paying for. ■

Make sure
your financial
adviser has
updated the
allocations in
your account.
If you've done
nothing with them
for a few years,
chances are the
mix has gone awry

Make It Work For You

 **FIRST, CONSIDER OTHER INVESTMENT VEHICLES** Small-size separate accounts aren't nearly as diversified as mutual funds

 **DEMAND EXCELLENCE** Select a program at a brokerage, mutual-fund company, or specialty separate-account shop that offers the most choices in investment style and top-notch managers

 **CHOOSE FLEXIBILITY** Buy programs that allow stock customization and screening according to your investment criteria

 **CALL THE SHOTS** Don't expect your separate-account manager or broker to make all the right choices for you

There's never been a
better time for Charles Schwab.TM

The Schwab Way

Now more than ever, individual investors deserve a level playing field.

From day one, over 25 years ago, the Investment Consultants of Charles Schwab & Co. have been driven by what's in the best interest of individual investors, not by individual broker commissions or conflicts of interest. That is our core, individual investors. They are the central purpose of what we do. Not investment banking, individuals.

And as these individual investors grew, we grew with them. We made a substantial investment in fact-based knowledge — both in the market and in our own Investment Consultants' expertise.

We've grown from helping people invest to becoming their trusted, expert consultant on how they should best manage their portfolio.

And now with Schwab Private Client, you'll develop a one-on-one brokerage relationship with a consultant who'll offer the expert advice you've always wanted and the attention you deserve as you manage your portfolio.

And if you're at the point in your life where you want to turn some or all of your investments over to an experienced advisor, there's the Schwab Advisor NetworkSM, a hand-selected group of professional, independent advisors.

At Schwab, we may have evolved but we've always remained true to our original principles.

THE PRINCIPLE OF THE INDIVIDUAL INVESTOR

From day one, the individual investor has been at the center of what we do. Every investor is important to us. We're not focused on investment banking. We represent you, the individual investor.

THE PRINCIPLE OF FACTS, NOT HYPE

We give advice based on facts. We do not give so-called "hot stock tips." Research and facts are the foundation of our advice. And now with our Schwab Center for Investment Research and Schwab Equity RatingsSM, we analyze and rate more U.S. stocks for the individual investor than any other major brokerage firm.

THE PRINCIPLE OF SELL AS WELL AS BUY

Last year according to *First Call*, less than three percent of analysts' recommendations in the marketplace were a "sell." And at Charles Schwab, we don't believe that's the way it should be. With our Schwab Equity Ratings, we analyze stocks based on quantitative facts and give each one a simple A, B, C, D or F rating. And our research is designed to give just as many F's as we do A's. So now there's a system that helps you decide what to sell as well as what to buy.

THE PRINCIPLE OF ADVICE NOT DRIVEN BY COMMISSION

Individual broker commissions can undermine relationships. That may bias the advice you're getting. Our Investment Consultants' compensation is based on their service to you and assets at Schwab, not commissions. It always has been. And always will be.

THE PRINCIPLE OF OBJECTIVITY

At Schwab, we're not focused on investment banking. For example, we make IPOs available but we don't receive any compensation for their distribution. To us, it's a potential conflict of interest. We always strive to avoid conflicts of interest in everything we do. This is at the heart of our values.

charles SCHWAB

Call	1-866-751-3264	Click	schwab.com	Visit	400 locations nationwide
------	----------------	-------	--	-------	--------------------------

*For companies with U.S. ticker symbols. Schwab Equity Ratings are not currently available to all clients. Fees for additional services may apply. ©2002 Charles Schwab & Co., Inc. All rights reserved. Member SIPC/NYSE (0502-8401). ADS23342SPD.

Keeping the House Covered

Insurers are raising premiums and dropping more homeowners' policies

BY ANNE TERGESEN

Have you been hit with a big increase in your homeowner's insurance premium? No surprise there, if yes. After years in which homeowner's rates have remained relatively flat, they're rising at a projected 6% clip this year, following a 6% gain in 2001. In Texas, California, and Florida, the hikes have been higher, averaging over 15%. And insurers are dropping a growing number of policyholders—not because they don't pay their bills, but because they file too many claims. "The rule of thumb is, if you have three claims in a two-year period, you're gone," says Iris Lynch, personal insurance manager at CAL Insurance & Associates, an independent agency in San Francisco.

Prices will likely keep rising, too. After years of losing money in a bid to boost market share, insurers are scrambling to restore profitability. Insurers decided they could no longer afford the red ink after industry losses more than doubled, to an estimated \$8.9 billion, in 2001. The causes include increased payouts for damage from natural disasters, such as tornadoes, and costly lawsuits over mold damage in Texas and other states. If you've been notified of a premium hike, don't accept it as a fait accompli. Instead, try to soften the blow by shopping around or altering your policy or home to qualify for discounts.

Whether your rates are going up or not, it's always a good idea to look for a better deal. Your first stop should be at your state insurance department's Web site. You'll find a link to it at www.naic.org. Here you can find out which companies sell homeowner's insurance in your state and, often, their average premiums. Also, check for consumer complaints and see how financially secure a prospect is.

At Web sites including www.insure.com, www.insurance.com, and www.quotesmith.com, you can compare price quotes on some

homeowner's policies. But since these sites offer only a limited sampling, you'll need to hit the phones.

You may find other insurers don't welcome your business. If you have filed a claim recently—or just notified your carrier of damage—don't be surprised if you have trouble finding a reasonably priced new policy. "When I went shopping around, I was told no company would touch me because I had a water leak," says Jim Davis.



If you're among the estimated 6% of homeowners to receive a cancellation notice this

lives in West Lake Hills, Tex. Although is never filed a formal claim, his premium doubled this year after he notified his insurer that his home had suffered water damage. Many insurers have access to claims information through a national database.

Another downside to switching carriers is you forfeit discounts reserved for long-term customers. If you file a claim soon after moving to a company, watch out. You may put yourself at risk of cancellation when your policy is up for renewal. That's because insurers are more wary of claims from long-term customers with long histories than they are of new clients.

Before signing on the dotted line, ask your agent or insurer how many claims you can file before raising a red flag. State Farm, the nation's largest home insurer, says it may reexamine policies in the mid-Atlantic states for possible termination when two claims are filed in three years. Companies are particularly unforgiving of claims that arise due to negligence—for example, a leaky washing machine hose—as opposed to, say, the weather, agents say.

Whether you switch or stay put, a good way to save money is to raise your deductible. For example, State Farm clients can save about 11% by increasing their out-of-pocket payments to \$500, from \$250. Agree to cover \$1,000 instead of \$250, and your premium will fall by about 28%. For a \$250,000 home in Prince George's County, Md., moving to a \$1,000 deductible will cut your premium from \$800 a year to \$584. The key is to assess what you're comfortable shelling out if a problem occurs. "I have customers with \$10,000 deductibles," says Kelly Overcash, an account executive based in Clearwater, Fla., at Acordia, a national independent agency.

Sure, that means you will have to defray more repair costs. But because insurers often raise rates or drop customers who file multiple claims, it may prove cheaper to take care of small items yourself. "Use the insurance policy for catastrophes only," says Overcash.

If you haven't already done so, consolidate your homeowner's and automobile coverage with one carrier. This can save you as much as 15%. And find out if you qualify for discounts.

Pay Less for Your Policy

ACTION

Consolidate homeowners' and other insurance with one carrier

Install smoke detectors, sprinklers, burglar alarms

Keep your business with the same insurer

Retire to get lower premiums

Upgrading your home to cope with potential disasters, such as windstorms and fire

Buy group coverage offered by an employer or association

POTENTIAL SAVINGS

5% to 15%

5% to 20%

5% for 3-to-5 years
10% for 6 years-plus

Up to 10%

5% to 20%

Up to 10%

Data: Insurance Information Institute, *BusinessWeek*

Often insurers grant them to homeowners who take steps, such as installing an alarm system, that reduce the likelihood of claims (table).

Make sure you're not paying for unnecessary extras. If your home is not prone to water damage, for example, you may want to drop sewer and drain backup coverage, which kicks in when your sump pump or sewer overflows and can cost up to \$100 a year, says Tom Schneider, owner of the Schneider Insurance Agency in Gahanna and Newark, Ohio.

Finally, since many insurers consider your credit history when calculating your premium, make sure your credit report is accurate. Indeed, as credit scores fall, it's not unusual to see insurance premiums jump by as much as 50%—or for coverage to be denied, says Robert Hunter, director of insurance at the Consumer Federation of America. Ask your insurer which credit-scoring agency it uses. You are entitled to a free copy of your report if your company cites credit problems as a reason for denying coverage or hiking rates, says Hunter.

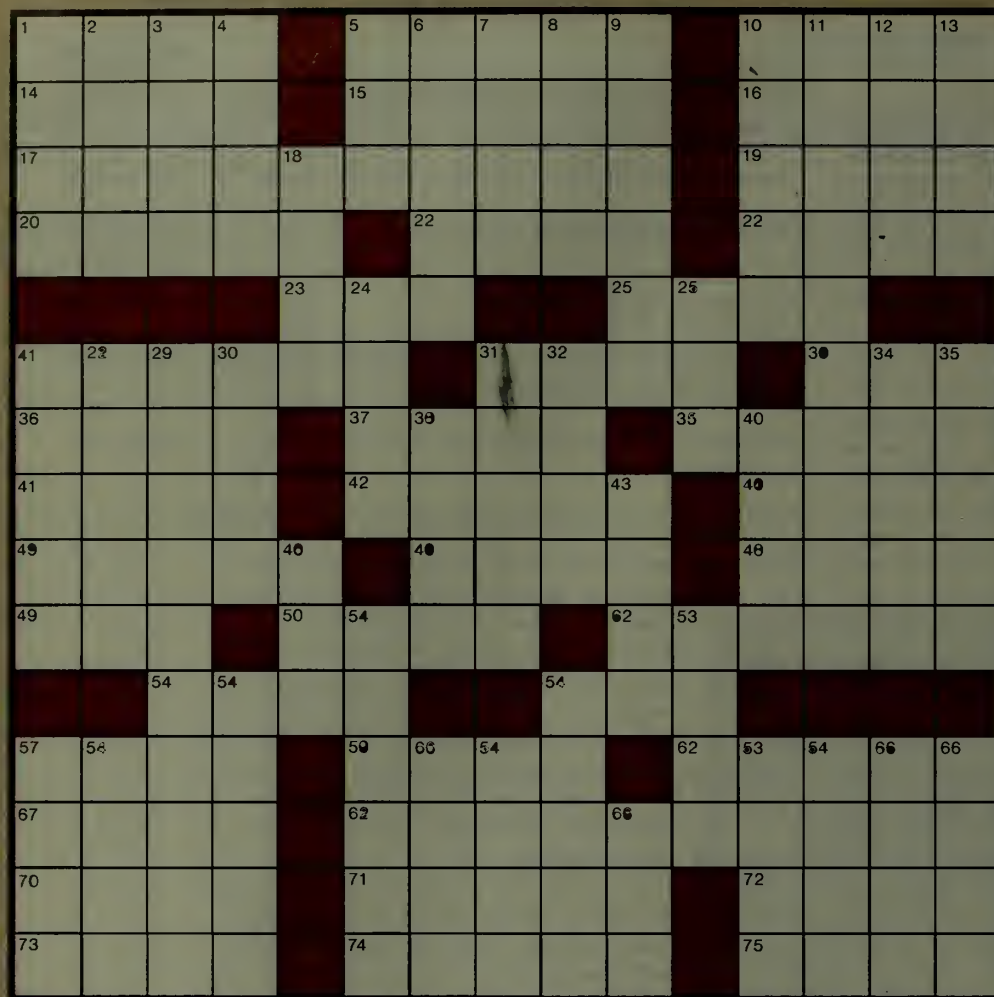
If you are among the estimated 6% of homeowners to receive a cancellation notice this year—a level that's about twice the average in recent years—don't hesitate to challenge the decision. Sometimes, you can negotiate a reversal. One tactic is to agree to a higher deductible.

Still, since agents report a low success rate for appeals, shop immediately for new coverage. You will generally have 30 to 60 days before your old policy expires. Don't allow your insurance to lapse, since many carriers reject uninsured applicants, says Mike McCartin, owner of Joseph W. McCartin Insurance in College Park, Md. If you feel your insurer has treated you unfairly, file a complaint with your state insurance department.

Don't get flustered by rising rates—or a policy cancellation. By shopping around or changing your policy's terms, you may be able to save on your homeowner's premium this year. ■

Don't hesitate to challenge the decision. One tactic: Agree to a higher deductible

Mixing Business with Pleasure by Lincoln



ACROSS

1. Fredericks of Hollywood products
5. Inexpensive
10. "___ la Douce"
14. Author Ambler
15. Magna ___
16. "Chivalry isn't ___"
(see page at right)
17. Options trader's concern
19. Exxon's ex-name
20. Sweepstakes mail-in
21. Late-night TV name
22. Legal department staff: Abbr.
23. Letter addenda: Abbr.
25. Former UN member
27. World Wide Web program
31. Tax payments, so to speak
33. #2 software manufacturer
36. "Master of the Senate" author
37. Golden-___ (senior citizen)
39. AA, on the NYSE
41. Oklahoma city
42. George W., circa '66
44. United Technologies' elevator company
45. ___ playing field
47. "Born Free" lioness
48. Monterrey money
49. ___ Baba
50. Sushi-bar selections
52. SAS headquarters
54. Canadian wildcat
56. Farm enclosure
57. Mets' home
59. "___ performance is no guarantee..."
62. Health-care professional
67. Stock-page column header
68. Auditors' department
70. Butter alternative
71. Gets close to
72. Awestruck
73. Extinct bird
74. Units of force
75. Hems and ___

DOWN

1. "___ Only Just Begun"
2. Skillet material
3. British government bond
4. Lasting impression
5. Start of the 3rd century
6. Greeting card magnate's fa
7. Pennsylvania port
8. Envelope abbreviation
9. ___ ratio (annual-report sta
10. Think-tank output
11. Like some stock awards
12. Sail holder
13. Fusses
18. Prepare a memo
24. Don't go
26. Sailor's workplace
27. Amtrak's high-speed train
28. Discussion group
29. Like some conversations with 29 Across
30. Ore deposit
31. Whistles' partners
32. Part of the eye
34. ___ Cascade
35. Construction worker
38. Highlander
40. Easy run
43. Toward the dawn
46. Author Deighton
51. Grow, as a business
53. Mirage Resorts chairman
55. HotJobs.com owner
56. Federated unit
57. Did blacksmith's work
58. Hawaiian port
60. ___-deucey
61. eBay auction photo, often
63. Kennecott Copper's home
64. Latvia's capital
65. TV reception problem
66. Silly Putty holders
69. Battleship letters

For answers to this puzzle:

Turn to page 161 in this week's issue of BusinessWeek or visit Mixing Business with Pleasure by Lincoln on www.businessweek.com/adsections

Puzzle created by: Stanley Newman.



LINCOLN

Lincoln.com

POWER RUNNING BOARDS POWER-FOLDING MIRRORS POWER LIFTGATE POWER-FOLDING 3rd ROW



LINCOLN



CHIVALRY ISN'T DEAD.
MECHANIZED A LITTLE, BUT NOT DEAD.

THE ALL-NEW 2003 LINCOLN NAVIGATOR. When the door opens, the running boards automatically deploy. All aboard. There are those who travel. And those who travel well.

For more information or to schedule a test drive, visit Lincoln.com or call 800 688-8898.

Available power liftgate, folding 3rd row seat and running boards

Want Out of Your Lease? Head for the Web

Sites link sellers and buyers and do the paperwork

BY LARRY
ARMSTRONG

It worked for a while, that trusty Volvo S80 that Christopher and Susan Torre leased when they had only one child. But when the twins came along two years later, the Middletown (N.J.) couple decided it wasn't big enough. "It was wall-to-wall kids in the back seat," says Susan. "A minivan made much more sense."

Trouble was, the Torres had another year and a half to go on the Volvo's four-year lease. They didn't want to take on an extra car payment or spend the thousands of dollars it takes to get out of a lease early. Instead, they listed the car on LeaseTrading.com, where Doug George found it. The Booneville (Miss.) financial planner took over the monthly payments, and the Torres bought a brand-new Chrysler minivan.

In the past year or so, a handful of Web sites have sprung up to make a market in car leases (table). For a fee, LeaseTrading.com, LeaseTrader.com, and Swapalease.com match buyers and sellers. More important, they take care of all of the paperwork, such as the credit check and new lease documents that leasing companies require. The market is still tiny, though. For one thing, some leasing companies won't let you transfer a lease or hold you liable to the end of the lease if you do. Others levy fees on top of the sites' fees.

Still, these sites solve a big problem for lots of people. Nearly half of all new car buyers who lease end their contracts early. Want next year's model? No problem—if the lease is held by the auto maker's finance arm and you have only a few months to go.

But if you have six months or more left, you're out of luck. Yes, you can buy your way out of a lease, but you'll have to shell out the difference between what you've already paid and the current value of the car. That's almost always a huge penalty because leases (and car loans)



WIN-WIN: George got a deal on the Torres' Volvo

assume that cars depreciate as a fixed percentage of the sales price each month, while anyone who has ever driven a new car off a dealer's lot knows that bulk of the depreciation actually occurs early in the car's life.

That's what Nancy Carmichael discovered when she wanted to trade her 1999 Mercedes-Benz for a new Jaguar. Dealers told her she still owe \$4,500 to \$6,000 over the car's market value. In the end, Carmichael, operations director for a California real estate developer, paid LeaseTrading.com \$39.95 for the listing and \$298 for the transfer and paid the buyer \$1,092, subsidizing the remaining payments. "That's a third of what it would have cost me," she says. Her buyer was happy, too, driving off in a Mercedes-Benz C230 for what works out to \$325 a month for the next 15 months. Buyers like these dealers get a car with a short-term lease and no downpayment, and leased vehicles are often in better condition than most used cars.

Still, if you're planning to take over a car lease through these sites, do your homework. Check the value of the car on Edmunds.com or kbb.com. Demand that the seller show you a copy of the original lease to make sure you're buying from an individual rather than a broker unloading cars from rental-car fleets. If you can see the car, have it professionally inspected. That costs about \$100 and will ensure you won't get stuck paying wear-and-tear costs when you turn the car in.

As for George, he couldn't be happier. Tired of his Lincoln Navigator, he was surfing the site when he ran across the Torre Volvo. After a brief negotiation, George took over the lease in March; the Torres paid him around \$500 to get the month's payment down to \$380, and the parties split the \$600 cost to deliver the car. "I can't see myself ever again going to a dealership," he says. George is already back online, looking to replace his \$30,000 Ford Lariat pickup.

Making a Market

These sites help almost any car lease get out of a lease with a new owner.

SITE	REGISTRATION FEE		LEASE-TRANSFER FEE	
	BUYER	SELLER	BUYER	SELLER
leasetrader.com	\$24.95	\$39.95 (first mo.) \$99.95 (unlimited)	\$149	Up to one monthly lease payment
leasetrading.com	\$0	\$39.95	\$0	5% of remaining lease payments
swapalease.com	\$24.95	\$49.95	\$0	\$95

*Some leasing companies charge their own credit-approval and transfer fees, usually paid by the buyer

HOW TO SHRINK THE PAY GAP



TODDI GUTNER
@businessweek.com

Say you suspected you were being paid less than someone else in your company with the same title and experience. Wouldn't it help to be able to look up the company's wage-setting practices, the salaries for each job, and the sex and race of the employees in each position? Requiring corporations to disclose such information is the only way to close the pay gap between men and women.

On their own, companies often fail to practice pay parity. Why would they? No one is holding them to it. Indeed, from 1995 to 2000, women managers in several fields not only made less money than men but the wage gap widened in 7 of the 10 sectors that employ 71% of all female workers, according to a General Accounting Office report released earlier this year (table).

Entertainment and recreational services had the largest widening, with female managers earning just 62¢ for every dollar made by males in 2000, down from 83¢ in 1995. Only in public administration, hospital and medical services,

and education did the gap narrow. One explanation: These industries are dominated by women. It may also be easier for women to succeed in fields strongly influenced by unions, where there are clear rules for salary levels and promotions. But for most other industries, "it's a wake-up call," says Representative Carolyn Maloney (D-N.Y.), who commissioned the GAO report with Representative John Dingell (D-Mich).

Why is the clock turning back? We don't have enough information to know the reasons for the specific results of the GAO study. What we do know is that in general, the salary difference between college-educated men and women closed during the 1980s and early 1990s. And many, including federal government officials, expected that trend to continue.

In fact, because people took for granted that the gap would



continue to shrink, the issue fell off the radar screen. Indeed, both the Equal Employment Opportunity Commission and the Office of Federal Contract Compliance had funding cutbacks, says Heidi Hartmann, an economist and president of the Institute for Women's Policy Research in Washington.

Before anything can be done about inequity, "we have to point out there is a gap, because there is still an unwillingness to acknowledge it's a problem," says Heather Boushey, an economist at the non-profit Economic Policy Institute in Washington. The GAO study and other reports high-

light the problem, even accounting for other reasons for pay differential, such as merit and the desire to keep employees from jumping to competitors.

The question now is whether Congress will act on this information. The right to gain access to salary and demographic information I mentioned above is actually a section from a little-known bill, the Fair Pay Act, introduced by Senator Tom Harkin (D-Iowa), in 1996. The House sponsor is Representative Eleanor Holmes Norton (D-D.C.), who doesn't even have a vote because the District isn't a state, and the bill lacks enough co-sponsors to create any traction.

Regardless of whether the Fair Pay Act moves forward, I believe the reporting provision should be considered on its own merit. (There is talk of a separate bill on Capitol Hill.) The section requires employers to preserve records and file summaries of wage-setting practices, and submit annual reports of pay by position, gender, race, and nationality to the EEOC. No names would be listed. The data would be available to all employees. Although it might be possible to identify what some individuals earn in positions with few women and minorities, I think the potential gains outweigh that risk.

"Companies claim these requirements would invite frivolous lawsuits, but if they have nothing to hide, it would derail the lawsuits," says Martha Burk, chair of the National Council of Women's Organizations in Washington. Clearly, companies need some government prodding for them to make pay parity a priority. ■

BusinessWeek online

To join a discussion in our forum, see hers.online.at
www.businessweek.com/investor/

Where Women Lost Ground

The following data, from a recent study by the General Accounting Office, show how much full-time female managers earn for each dollar earned by males.

CTOR	1995	2000	CHANGE
Entertainment and recreation	83¢	62¢	-21¢
Communications	86	73	-13
Finance, insurance, and real estate	76	68	-8
Business services and repairs	82	76	-6
Other professional services	88	83	-5
Retail trade	69	65	-4
Professional medical services	90	88	-2
Public administration	80	83	+3
Hospital and medical services	80	85	+5
Education	86	91	+5

Data: General Accounting Office

PANERA'S DOUGH MAY HAVE RISEN TOO FAR



BY ROBERT BARKER

rb@businessweek.com

The bakery-café chain is growing by leaps and bounds, but its stock could be ahead of itself

How hot is Panera Bread? Shares of the bakery-restaurant chain doubled in price during the past year as sales and earnings kept soaring. That much about Panera I knew. What I didn't know was why it was breaking away from the pack of other restaurants. Not, that is, until the other day, when I visited four Panera cafés in and around Orlando.

My progressive lunch included a muffin top and coffee at the first spot, Vegetarian Ginger Tomato Florentine soup and a sourdough roll at the next, a Turkey Artichoke Hot Panini sandwich, with chips and lemonade, at the third, and an iced coffee at the last. Overcoming temptation, I passed on the "Flirty, Flutey Mini Bundt Cake." Each place was clean, busy, bright, friendly, and fast. Classical music played overhead; underfoot stretched hardwood floors. And the food was good. My total outlay: \$15.63. Leaving a packed downtown-Orlando location, I wasn't surprised to see that a nearby office building had posted a warning: "Absolutely No Panera Parking."

As much as I like Panera's bakery-café, not to mention its debt-free balance sheet, I can't suggest you hurry out to buy the stock. Bulls—and there are many, with 9 of the 11 brokerage firms that follow the stock recommending it—see Panera as another Starbucks, which is up more than 2,200% since its 1992 initial public offering. Might new investors in Panera see such gains? Yes. Is it likely? No.

The reason is simply that so much of Panera's potential is already reflected in the stock's price, recently near \$70, up from \$6 three years ago (chart; the shares are slated to split 2-for-1 on June 24). The Richmond Heights (Mo.) company had been called Au Bon Pain, but changed its name to Panera in May, 1999, when it sold Au Bon Pain to private investors who later sold it to Britain's Compass Group. It used the proceeds to pay off its debt and refocused on suburban rather than urban locations. From 183 units at the

end of 1999, it has grown to nearly 400 in states and sees almost 600 by the end of 2002 when it's set to open in Los Angeles. Panera owns 30% of the stores, and the rest are franchises. "People believe there's a very strong future here," Chief Executive Ron Shaich told me, with potential for 1,500 units.

So far, Panera stock has been driven by impressive gains in sales and earnings. Last year, the company collected revenues of \$201 million, a 30% jump, and posted earnings of 91¢ a share, a gain of 75%. As time goes on, however, Panera's rapid earnings growth will slow down. This year, Panera expects earnings per share of \$1.10, a 54% boost. Next year, Panera is forecasting another nice gain of \$1.96 a share. That rate of growth, 40%, will be slower than last year's, which was slower than the year's.

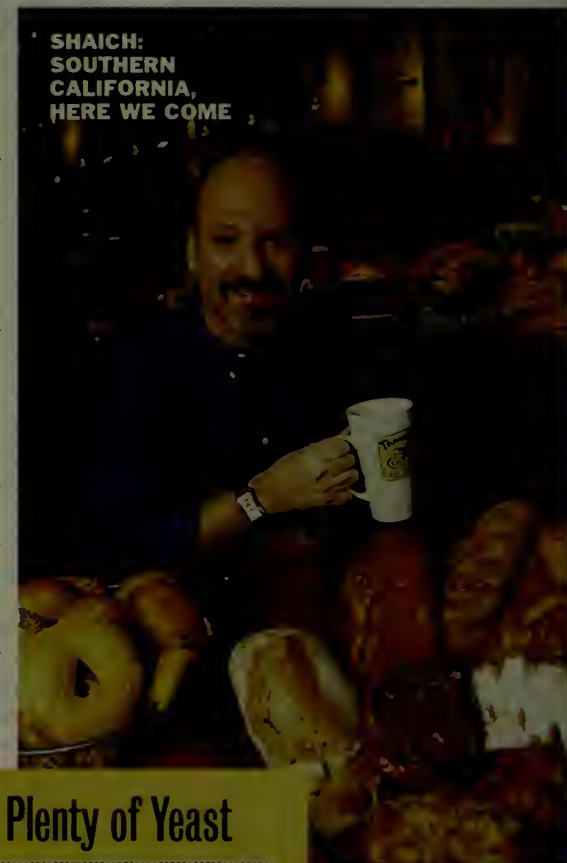
Even if it's obvious, the market has an inescapable implication: If investors don't pay higher multiples, expected earnings for lower and lower rates of growth. At \$70 a share, Panera goes for 37 times this year's earnings. That ratio is just less than 93% of the 54% expected

earnings growth rate. If that same proportion holds, investors can expect Panera at this time next year to sell for 37 times 2003 earnings, or less than \$73 a share.

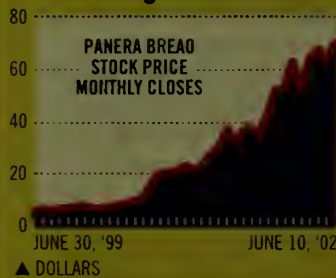
You can see how this phenomenon worked with another favorite restaurant stock, Krispy Kreme Doughnuts. In the fiscal year ended January, 2001, Krispy Kreme posted a 74% leap in earnings per share. In fiscal 2002, profit growth slowed to 67%. This year, it's forecast to run 40%, a next year 33%. Despite this splendid corporate performance, Krispy Kreme stock is now near unchanged from a year ago.

What could disprove this analysis? Panera could surprise the market with better profits than forecasts. That's possible, of course, because "managing" nice earnings surprises is widespread. But Shaich swore to me he's not guiding Wall Street to expect lower profits than he in fact foresees. "These [estimates] are very aggressive," he says. "I would be very proud to deliver" on them. If you don't, watch out below.

SHAICH:
SOUTHERN
CALIFORNIA,
HERE WE COME



Plenty of Yeast



Data: Standard & Poor's Comstock

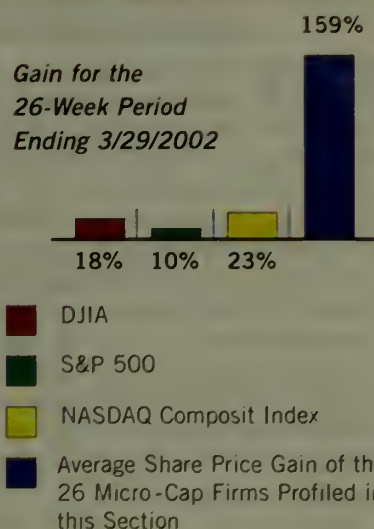
BusinessWeek online

For barker.online, go to
www.businessweek.com
/investor/ and click on
"Columns"

THE EQUITY INVESTOR'S 26-WEEK MICRO-CAP REVIEW

SELECTED PROFILES OF THE NATION'S TOP PRICE-PERFORMING MICRO-CAP COMPANIES AS OF 3/29/02

From the approximate 3,700 domestic companies with market capitalizations under 200 million dollars, the following pages highlight selected firms in the top 10%, in terms of share price performance for the 26-week period ending 3/29/02. Each profile describes a leading company including its industry, market trends and reasons for success, as written by company management. And while past performance is never a guarantee of future results, these top-performing companies represent investment opportunities worthy of a micro-cap investor's close consideration.



Friendly Ice Cream Corporation • FRN • Restaurants

Abraham, MA • IR Contact: Deborah Burns • 413-543-2400 x3317
www.friendlys.com

Friendly's family restaurant operator in the Northeast with 390 company restaurants and 160 franchised restaurants in 17 states. Friendly's also manufactures a complete line of packaged frozen desserts distributed through more than 3,500 supermarkets and other retail locations. The company's restaurants fill a consumer need providing great tasting, popular menu items with special ice cream shop desserts, served in a friendly, family environment at reasonable prices. Friendly's is a powerful brand with great heritage and strong customer loyalty.

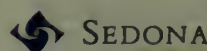
Key Manager Statement

"By focusing on the critical elements of guest satisfaction, strategic brand positioning/marketing and continued productivity, we will be able to achieve the exciting potential of the Friendly's brand. We are encouraged by our performance in both fiscal 2001 and the first quarter of 2002. The overall financial health of the company has greatly improved with the recent completion of a re-financing and restructuring plan."

John L. Cutter, President & COO

SEDONA Corporation • SDNA • Customer Relationship Management

King of Prussia, PA • IR Contact: Steve Ficyk • 330-220-4051
www.sedonacorp.com



SEDONA Corporation is the leading provider of Customer Relationship Management (CRM) solutions to small and mid-sized financial services institutions. The company is an IBM Advanced Business Partner and markets and sells strictly through indirect channels such as Fiserv, FSI, OSI, and Sanchez. SEDONA continues to license its Intarsia™ CRM technology at a rapid pace and will be expanding to additional vertical and international markets. The indirect model affords SEDONA low distribution costs and large economies of scale allowing the company to very quickly penetrate targeted markets. With consistent revenue growth and expense reduction, SEDONA has had two consecutive quarters with positive gross profit.

Key Manager Statement

"SEDONA established early market position as the CRM provider who could quickly deliver a comprehensive, verticalized, yet affordable solution to smaller financial organizations. Other financial services vendors now recognize the market opportunity and are aligning with us to offer their customers the best CRM solution on the market."

Marco Emrich, CEO & President

Boston Biomedica, Inc. • BBII • Life Sciences

Bridgewater, MA • IR Contact: Richard Schumacher • 508-580-1900
www.bbii.com • ir@bbii.com

Boston Biomedica, Inc. (BBI) is a leading supplier of innovative, state-of-the-art quality control (QC) products, laboratory instrumentation, biotechnology services that support the accuracy and reliability of diagnostic testing and therapeutics development worldwide. In addition, the Company holds eight patents in Pressure Cycling Technology (PCT) and anticipates the release of its first product using this revolutionary technology this year. Finally, the Company maintains a passive investment in Panacos Pharmaceuticals, an antiviral drug discovery company spun-off from BBI in 2000 that is to initiate clinical trials for a novel anti-HIV compound by year's end.

Key Manager Statement

"BBI's core businesses offer the opportunity to be part of an established, growing life sciences company with hundreds of products and customers throughout the world. Concomitantly, the impending release of our first PCT product, and our investment in Panacos Pharmaceuticals, offer the potential for explosive growth. What a terrific combination for an investor!"

Richard T. Schumacher
Chairman & CEO

Mannatech, Inc. • MTEX • Biotechnology

Coppell, TX • IR Contact: Steve Fenstermacher • 972-471-6512
www.mannatech.com



Mannatech, Inc., founded in 1993, is a strongly focused nutraceutical company with operations in the United States, Canada, Australia, the United Kingdom and Japan. The company is a leader in the rapidly emerging wellness industry, estimated by

some economists to grow to over \$1 trillion within the next ten years.

Key Manager Statement

Mannatech's line of plant-derived proprietary supplements is designed to help the body maintain optimal health through specific support of the immune system, and is backed by patented and patent-pending carbohydrate technology. Mannatech's position as a key nutraceutical innovator has been strengthened each time a new patent has been issued.

"As a pioneer in the field of glyconutrient technology, Mannatech has carved out a unique niche within the dynamic field of glycobiology. Because of our ongoing research and sound proprietary products, Mannatech is well positioned with strong growth potential in the up-and-coming wellness industry."

Robert M. Henry, CEO

THE EQUITY INVESTOR'S 26-WEEK MICRO-CAP REVIEW

Nevada Chemicals, Inc. • NCEM • Mining Chemical Industry

Sandy, UT • IR Contact: John Day • 801-984-0228

www.nevadachemicals.com



Nevada Chemicals, Inc. (NCI), the industry innovator and leading supplier of liquid sodium cyanide, is focused on providing strategic mining chemicals to the gold mines, primarily in the Western United States, through its 50% owned company, Cyanco. NCI and Degussa, one of the largest chemical manufacturers in the world, are joint venture partners in Cyanco. Cyanco's products are essential to mining gold. Cyanco has been profitable for the past decade and with the recent strategic acquisition of FMC's cyanide business, continued profitability is expected. Plant capacity is sufficient to meet the growing demand as the mines expand with increasing gold prices.

Key Manager Statement

"We sense excitement coursing through the gold mining community as gold prices increase, which leads then to increased demand for our essential product. NCI is a gold play, a leveraged opportunity to share in the anticipated increase in gold prices."

Dr. John T. Day, President & CEO

Axeda Systems, Inc. • XEDA • Device Relationship Manager

Mansfield, MA • IR Contact: Idalia Rodriguez • 610-407-7345

www.axeda.com



Axeda is the pioneer in the growing market for Device Relationship Management (DRM) enterprise software services. Axeda helps businesses become more competitive by using the Internet to tap real-time information hidden in intelligent devices. The company's flagship product, the Axeda Device Relationship Management System is a distributed software solution that lets businesses remotely monitor, manage and service intelligent devices, deployed around the world, allowing them to optimize their service, development, sales and manufacturing operations. Axeda customers are Global 2000 companies in multiple markets including medical instrumentation, industrial and building automation, high technology, office automation and semiconductor equipment industries.

Key Manager Statement

"The Axeda DRM™ System is revolutionizing the way companies business. Connecting enterprises the devices they sell, service and enables better customer service, streamlines operations, lowers costs and offers new sources of revenue."

**Robert M. Russell Jr.,
Chairman & CEO**

Webco Industries, Inc. • WEB • Manufacturing

Sand Springs, OK • IR Contact: Mike Howard, CFD • 918-241-1094

www.webcoindustries.com • invrel@webcoindustries.com



Webco is a manufacturer of high-quality carbon steel and stainless steel tubing products designed to industry and customer specifications. Webco's tubing products consist primarily of heat exchanger tubing, welded boiler tubing, specialty stainless tube, and advanced mechanical tubing. The company's long-term strategy involves the pursuit of niche markets within the specialty tubing industry through the employment of leading-edge manufacturing and information technology. The company has three production facilities and five distribution facilities, serving more than 1,100 customers throughout North America.

Key Manager Statement

"Webco's \$5.18 per share in capital spending over the past four years has positioned the company as one of the most technologically advanced tubing manufacturers in the industry. Our dedication to utilizing advanced manufacturing and information technology ensures that we are able to best serve our customers' evolving needs for advanced tubing products. Our earnings trend since the April 2001 completion of our expansion validates the vision of our technology-based niche strategy in the pressure and mechanical tubing industry."

F. William Weber, CEO & Chairman

IGN Entertainment, Inc. • IGNX • Interactive Entertainment

San Francisco, CA • IR Contact: Elizabeth Drucker • 415-508-2622

www.ign.com



IGN Entertainment is the Internet's leading information and entertainment destination for PC, video, multi-player handheld gamers. The interactive

gaming sector represents a huge market, estimated by industry analysts to be a \$20 billion industry worldwide, expected to grow to \$40 billion by 2005. IGN has over eight million unique monthly users, including more than 4.7 million registered users, and over 50,000 paying subscribers. IGN delivers quality content, products and services to gaming enthusiasts as well as providing business customers with a full spectrum of advertising and marketing solutions to reach this large net-centric audience.

Key Manager Statement

"Given that IGN is the web's largest gaming community, we believe that we are well positioned to take advantage of the momentum in the interactive entertainment industry. In particular, we have been expanding the company from a broadcast media model to include a direct financial relationship with our audience through e-commerce and paid subscription service offerings."

Mark Jung, CEO

Checkers Drive-In Restaurants, Inc. • CHKR • Restaurant

Tampa, FL • IR Contact: David Koehler • 813-283-7000

www.checkers.com • koehlerd@checkers.com



Checkers Drive-In Restaurants, Inc. is making news with a very big turnaround story, and many are suggesting it is a very good small-cap stock to watch.

Checkers is the nation's largest double drive-thru restaurant chain with approximately 800 Checkers and Rally's locations. The company's business model is to deliver quality, made-to-order food at an exceptional value in a double drive-thru (lower investment cost) 800 to 1,000 square foot building with outside seating. Checkers and Rally's are ideally well positioned for consumers who are on the go and consume many meals at the keyboard or dashboard.

Key Manager Statement

"We have invested in restaurant facilities and technology, restructured corporate management, created award-winning advertising, eliminated debt and revived restaurant operations and morale. Today, we are no longer a 'turnaround' company but rather a strong competitor in the industry with exciting opportunities for franchise growth."

Daniel J. Dorsch, President & CEO

JOS. A. Bank Clothiers, Inc. • JOSB • Apparel

Hampstead, MD • IR Contact: David E. Ullman • 410-239-5715

www.josbank.com



Jos. A. Bank Clothiers, Inc. is a multi-channel retailer of men's clothing, with products ranging from formalwear to underwear. The company has 137 stores in 29 states, a nationwide catalog and an award-winning e-commerce website. Classic styling is the centerpiece of the brand along with our unyielding commitment to quality and service. The comparable products are targeted at the male professional and are designed and manufactured under the Jos. A. Bank brand. The company's earnings per share have increased 425% in the past two years, with record recurring earnings per share in fiscal years 2000 and 2001, and in the first quarter of fiscal 2002. Sales and earnings are projected to continue to grow by opening at least 55 new stores in the next two years — over 40% increase — growing our catalog and internet business and increasing gross profit margins.

Key Manager Statement

"Jos. A. Bank posted record recurring earnings per share in each of the past two years and in the first quarter of the current year. We have developed a great platform for growth and continue this outstanding trend."

Robert N. Wildrick, CEO

THE EQUITY INVESTOR'S 26-WEEK MICRO-CAP REVIEW

Harvest Natural Resources • HNR • Oil & Gas

Houston, TX • IR Contact: Steven Tholen • 281-579-6700
www.bentonoil.com • investorrelations@bogc.com



HARVEST
Realize the Potential

Harvest Natural Resources (NYSE: HNR) is an international oil and gas company whose strategy is to gain access to large known accumulations of hydrocarbons in Venezuela and Russia. Venezuelan production is projected to increase 15% to approximately 32,000 barrels per day this year with Russian oil production projected to increase 20% to 30% to approximately 18,000 barrels per day. In addition, the company has potential natural gas projects in both Venezuela and Russia that could significantly increase production in 2003 and beyond. Harvest recently completed a \$220 million sale of one of its Russian properties in April 2002, providing the financial flexibility to exploit numerous growth opportunities.

Key Manager Statement

"In 2002, we plan to build on our success in 2001 by further reducing operating and overhead expenses per barrel. In 2002, we expect operating cash flow to be \$2.30 to \$2.60 per share, based on last year's pricing."

Dr. Peter Hill
President & CEO

Environ Recycling Tech • AERTA • Building Materials

Springdale, AR • IR Contact: Jan Wilkinson • 866-396-3737
www.choicedek.com • janwilkinson@aert.com



Advanced Environmental
Recycling Technologies, Inc.

AERT is a leader in the dynamic and rapidly growing composite building materials industry, producing low maintenance products that are cost effective and far more durable than wood for exterior and remodeling applications. With the recent EPA agreement phasing out CCA treated lumber, the company is currently focused on meeting the high demand for its decking and railing product line, addressing a decking market that is expected to grow to over \$5 billion by 2005.

Sales have increased more than 25% year over the last five years, and with a long term exclusive marketing agreement with Weyerhaeuser for Lowe's, continued strong growth is expected from both existing and new product offerings.

Key Manager Statement

"AERT is a customer driven company providing high quality environmentally friendly, low maintenance building materials which positively addresses the needs and lifestyles of today's busy homeowners."

Joe G. Brooks, AERT Chairman

Hoover's, Inc. • HOOV • Business Information

Austin, TX • IR Contact: Frank Milano • 512-421-4336
www.hoovers.com • fmilano@hoovers.com



Hoover's, The Business Information Authority™, provides proprietary information on companies, executives and industries to sales, marketing and business development

professionals seeking to grow their businesses. The company has more than 8,000 seat enterprise subscribers to Hoover's (www.hoovers.com), the company's ship service. Under the leadership of Chairman and CEO Jeffrey R. Tarr, who joined the company in May 2001, Hoover's delivered greatly improved financial performance. Subscriptions were 70% of revenue mix in fiscal Q4; other revenue items include advertising, licensing and publishing.

Key Manager Statement

"We achieved profitability in December and increased earnings in our March quarter by increasing revenue, expanding margins and reducing costs. We generated more than \$5 million in operating cash flow and eliminated all outstanding debt in the year ended March 31, 2002. Our growing cash balance now exceeds the equivalent of \$2.00 per share."

Jeffrey R. Tarr, Chairman & CEO

Cedara Software Corp. • CDSW • Healthcare Software

Mississauga, Canada • IR Contact: Fraser Sinclair, CFO • 800-724-5970
www.cedara.com • fraser.sinclair@cedara.com



CEDARA
Software with Vision

Cedara is a leading provider of healthcare imaging software, serving well-known OEMs and VARs worldwide since 1987. Cedara's software enables healthcare devices and information technology to perform medical imaging, image distribution, diagnostic review, and therapy guidance. The majority of hospitals in the world today have at least one Cedara product integrated into a CAT scanner, MRI, nuclear medicine imager, ultrasound, or IT system. Cedara's recent work with Intel to develop a medical application for referring physicians was the winner in a Microsoft-sponsored competition for the most compelling application of Office XP and its new Smart Tags technology.



Key Manager Statement

"The global healthcare market is forecasted to grow at double-digit rates for at least the next 5 years. This places a premium on time-to-market and innovation, driving customers to trusted software partners like Cedara for outsourcing."

Michael M. Greenberg,
Chairman & CEO

Rocky Mountain Chocolate Factory, Inc. • RMCF

Durango, CO • IR Contact: Bryan J. Merryman • 970-382-7324
www.rmcf.com



Rocky Mountain Chocolate Factory, Inc. is an international franchiser of gourmet chocolate and confection stores and a manufacturer of an extensive line of premium chocolates and other confectionery products. Franchisees currently operate 223 retail stores in 40 states, Canada, Guam and the United Arab Emirates. Earnings per share increased 158% in FY2000, 84% in FY2001 and 33% in FY2002. The company recently completed a new branding strategy that includes an exciting new retail store design concept, a full service kiosk, new product packaging and a redesign of its corporate logo. Management believes its new branding strategy has created the premier retail concept in the \$12 billion chocolate and confection industry.

Key Manager Statement

"Our success has been driven by an increased focus on the franchise opportunity. Our new branding strategy has further strengthened our number one position as the leading franchise opportunity in the candy category and positions the company for continued growth and record profitability."

Bryan J. Merryman
Chief Operating Officer

ION Networks, Inc. • IONN • Infrastructure Security

Piscataway, NJ • IR Contact: Jonathan Brown • 732-529-0024
www.ion-networks.com • jonathan.brown@ion-networks.com



ION Networks provides solutions that address the growing trend in security breaches by external and internal intruders attempting to gain administrative access to critical network and systems devices. Firewalls and other commercially available products do NOT adequately protect against administrative level threats. Independent studies show that over 85% of the most damaging security breaches are by insiders - or those with insider information. ION is the leading provider of solutions addressing the five 'A's of infrastructure security: Access, Authentication, Authorization, Audit and Administration. ION solutions protect data centers, IP based networks, telecommunications networks and PBX environments. It is estimated that over 100 million inadequately secured devices exist in this mission critical niche.

Key Manager Statement

"With first market mover advantage, hundreds of blue chip customers and a leading-edge, battle tested solution, ION Networks is well positioned for strong growth in one of today's hottest markets—infrastructure security solutions."

Kam Saifi, President & CEO

THE EQUITY INVESTOR'S 26-WEEK MICRO-CAP REVIEW

B+H Ocean Carriers • BHO • Refined Oil Products Transportation

Hamilton, Bermuda • IR Contact: Karen Ptak • 401-410-1215
www.bhocean.com • www.kptak@bhcouasa.com



B+H Ocean Carriers is one of the ten largest owners of global refined oil products tankers. With its Singapore technical support operations, the company has remained on the forefront of the new required safety performance standards. This has enabled BHO to maintain its status with the major international oil companies, refineries, and traders. The company's ships transport vegetable oil, diesel fuel, and gasoline. BHO believes the refined oil product business is less volatile and has higher growth prospects than the transportation of crude oil to refineries — especially viewing the almost zero excess capacity of any refinery either in Europe or the USA. Over the last two years, BHO has accomplished a major financial restructuring.

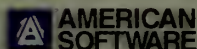
Key Manager Statement

"BHO intends to accelerate its growth by the acquisition of 8 to 12 new built double-hulled Product Tankers in the 2004-06 period. Such would most likely place BHO in the #1 market share position in its niche portion of its industry, and result in the quadrupling of the firm's book value over the next ten years."

Michael Hudner, CEO

American Software • AMSWA • Software

Atlanta, GA • IR Contact: Patricia McManus • 404-364-7615
www.amsoftware.com • www.logility.com



American Software develops, markets and supports of the industry's most comprehensive offerings of integrative business applications, including enterprise-wide, supply chain management, Internet commerce, financial, warehouse management and manufacturing packages. It has 85% ownership in Logility Inc., (NASDAQ: LGTY), a leading provider of B2B collaborative commerce solutions to optimize the supply chain. Logility Voyager Solutions enable networks of trading partners including suppliers, manufacturers and retailers to collaborate, integrate and synchronize their planning and e-fulfillment operations. Logility is proud to serve customers such as ConAgra, Heineken USA, McCormick & Company, Pharmacia, Reynolds Metals, Timex and VF Corporation.

Key Manager Statement

"Logility Voyager Solutions of the fastest return on investment the industry, with some customers realizing a full ROI in 30 days. Through recent OEM partnerships, Logility has expanded its distribution channels and leadership in the supply chain marketplace which will contribute to Logility's future success."

James C. Edenfield, President & CEO

PEMCO Aviation Group, Inc. • PAGI • Aviation Services

Birmingham, AL • IR Contact: John Lee • 205-510-4051
www.pemcoaviationgroup.com



PEMCO Aviation Group, Inc. provides quality maintenance, repair/overhaul, and modification of aircraft for both the U.S. Government and foreign and domestic commercial customers. It also provides aircraft parts and support; engineering services; develops and manufactures aircraft cargo systems; and precision springs and components. Success has been achieved throughout the company's history; however, it has been significant over the course of the last two years. New management, improved operating efficiencies and increased contracts have led Pemco to achieve distinction in the industry as well as the financial world.

Key Manager Statement

"The upturn in Pemco's business — both in the commercial maintenance and conversion business and with increased military contracts — is a strong testimony to the quality and cost effectiveness of our services. We are developing a global base and are devoted to providing better and more efficient service through increased capacity, specialized training and unique systems in support of our customers' goals."

Ron Aramini, President & CEO

Infinity, Inc. • IFNY • Oil & Gas

Chanute, KS • IR Contact: Stanton E. Ross • 620-431-6200
www.infinity-res.com



Infinity, Inc. is an independent energy exploration/development company with a focus on coalbed methane. The company also owns Consolidated Oil Well Services, Inc., an oil/gas well servicing subsidiary that provides well completion services for Infinity subsidiaries/affiliates and other energy companies. During the past two years, Infinity has increased its gas coalbed methane acreage by 740% to over 185,000 acres and launched an aggressive drilling program. Gas sales from the company's second coalbed methane play, the LaBarge Project, recently commenced. Independent petroleum geologists have estimated that LaBarge may contain over one-half trillion cubic ft. of gas in place. Management believes the company is well-positioned to benefit from growing demand for natural gas as a "clean" fuel that can enhance America's energy independence.

Key Manager Statement

"We continue to believe that domestic oil and gas will become increasingly valuable in coming years, and we have positioned Infinity for growth as both a producer of natural resources and as a service provider to other companies in the energy industry."

Stanton E. Ross, CEO

MDC Corporation Inc. • MDCA • Business Services

Toronto, Ontario • IR Contact: Don Blue • 416-960-9000
www.mdccorp.com



MDC Corporation (MDZA — Toronto, MDCA — Nasdaq) is an international business services organization providing services to financial institutions and corporations with operations in North America, Europe, and Australia. The company's activities include marketing communication services, outsourced business services to financial institutions, and security printing. Market leaders: 1. Maxxcom — largest full-service marketing and communications organization based in Canada with 70% of its revenue from the U.S.A. 2. Custom Direct — second largest supplier of direct-to-consumer checks in the U.S.A. 3. Metaca — largest provider of credit, debit telephone and smart card services based in Canada. 4. Mercury — largest supplier of secure ticketing products based in Canada. 5. Ashton Potter — one of the world's largest private printers of postage stamps.

Key Manager Statement

"We are shareholder value driven and entrepreneurial. We pursue profitable growth through continuous innovation for our customers. We build scale and marketplace economies through both organic growth and strategic acquisitions."

Miles S. Nadal, Chairman & CEO

Hanger Orthopedic Group, Inc. • HGR • Healthcare Services

Bethesda, MD • IR Contact: Jason P. Owen • 301-986-0701
www.hanger.com



Hanger Orthopedic Group, Inc., is the largest national provider of custom orthotic and prosthetic patient-care services, whose sales represent approximately 25% of the market. The company services its patients through a network of 591 locations in 44 states as well as the District of Columbia. Hanger is also the largest distributor of orthotic and prosthetic components and finished patient-care products in the orthotic and prosthetic industry.

Key Manager Statement

"In 2001, we had the highest levels of sales and EBITDA in the company history. We made substantial progress in achieving the goals established at the beginning of the year. The goals were tough and performance enhancement demanded the total commitment of all of our employees in re-engineering the core processes and restructuring the support services of our company. The hard work and commitment of all 3,000 employees has positioned our company to continue to achieve its operational and financial goals."

Ivan R. Sabel, Chairman & CEO

THE EQUITY INVESTOR'S 26-WEEK MICRO-CAP REVIEW

Rockwell Medical Technologies, Inc. • RMTI • Healthcare

Wixom, MI • IR Contact: Thomas Klema • 248-960-9009
www.rockwellmed.com

Rockwell Medical Technologies, Inc. is an emerging growth company manufacturing high-quality hemodialysis products in a steadily growing healthcare market. Its strategic focus is developing proprietary products that result in improved patient outcomes, reduced costs, and increased provider efficiency. Rockwell's patented Dri-Sate® Mixing Chamber is positioned to take advantage of the changing market trend of dialysis providers utilizing dry product instead of disposables. The company recently secured an exclusive licensing agreement giving it the right to add water-soluble iron to its current product line. This patented product addresses a \$350 million U.S. market; \$1 billion worldwide.

Key Manager Statement

"Rockwell can offer above average growth potential and appreciation because it's at an early stage of development. For investors who want to be where the growth is, this is a company to take a look at. Our proprietary product lines position us to not only grow dramatically but have the potential to provide investors exceptional returns."

Robert L. Chioini,
Chairman, CEO & President.

Nevada Gold & Casinos, Inc. • UWN • Gaming

Houston, TX • IR Contact: Mark Roth • 713-621-2245
www.nevadagold.com

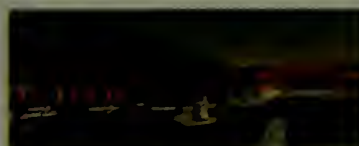


Nevada Gold & Casinos, Inc. (AMEX:UWN), Houston, Texas, is an experienced developer of gaming properties and has real estate interests in Colorado, California, Nevada, and New York. UWN owns a 43% interest in The Isle of Capri-Black Hawk through a joint venture with Isle of Capri Casinos, Inc. (NASDAQ: ISLE). UWN also has 51% ownership of Dry Creek Casino, LLC, which is assisting the Dry Creek Band of Pomo Indians in developing the River Rock Casino, Alexander Valley – planned for opening in 2002 in Sonoma County, California. UWN is committed to developing a minimum of one new gaming project per year.

Key Manager Statement

"We are successfully working with the Indian Gaming community, and value our relationships that help establish those developments with respect to balancing the tribe's goals and those of our shareholders."

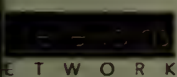
H. Thomas Winn,
Chairman, President & CEO



Rendering of River Rock Casino, Alexander Valley

iDine Rewards Network, Inc. • IRN • Marketing

Miami, FL • IR Contact: Stephen E. Lerch • 305-892-3306
www.idine.com



iDine is the leading provider of dining rewards programs and the only one to boast a broad, national scope. Its rapid, steady growth is attributable, in part, to the key partnerships it has established, providing the dining programs to all major U.S. airlines, large national credit card issuers, leading loyalty programs, and many prominent corporations. Over 11.8 million credit cards are currently registered in iDine programs. Over 8.9 million individual accounts are active, up more than 50% from a year ago. And members are spending an average of more than \$27 million a month at our 7,700+ participating restaurants.

Key Manager Statement

"Our business model and proprietary credit card processing technology are both flexible and scalable, offering us a wealth of opportunities. We are confident that we can sustain our rapid growth and profitability by broadening our reach within and beyond the dining rewards space."

Gene M. Henderson,
President & CEO

Morgan's Foods, Inc. • MR • Quick Service Restaurants

Beachwood, OH • IR Contact: Ken Hignett • 216-360-7500
www.morgansfoods.com

Morgan's FOODS, INC.

Morgan's Foods, Inc. operates 76 KFC restaurants, 7 Taco Bell restaurants, 17 KFC/Taco Bell "2n1" restaurants and 3 Taco Bell/Pizza Hut Express "2n1" restaurants in Ohio, Pennsylvania, West Virginia, Missouri, Illinois and New York. Morgan's has been a KFC franchisee since 1969. Acquisitions of existing restaurants and dual branding of single concept restaurants over the last several years have contributed to Morgan's increase in size and profitability. Morgan's has become a premier operator of quick service restaurants by the effective deployment of people, capital and technology. Morgan's Foods, Inc. is proud to have been listed on the American Stock Exchange since 1982.

Key Manager Statement

"We owe our success to the dedication and customer service orientation of our corporate management and operations team members. It's rewarding to see that their years of hard work are being recognized. Our investments in people and facilities will continue to enhance the competitive position of Morgan's."

Leonard Stein-Sapir, Chairman & CEO

26-WEEK MICRO-CAP REVIEW COMPANY DIRECTORY

COMPANY	PHONE #	COMPANY	PHONE #
Advanced Environmental Recycling Tech.	866-396-3737	Infinity, Inc.	620-431-6200
American Software	404-364-7615	ION Networks, Inc.	732-529-0024
Axeda Systems, Inc.	610-407-7345	JOS. A. Bank Clothiers, Inc.	410-239-5715
B+H Ocean Carriers	401-410-1215	Mannatech, Inc.	972-471-6512
Boston Biomedica, Inc.	508-580-1900	MDC Corporation, Inc.	416-960-9000
Cedara Software Corporation	800-724-5970	Morgan's Food, Inc.	216-360-7500
Checkers Drive-In Restaurants, Inc.	813-283-7000	Nevada Chemicals, Inc.	801-984-0228
Friendly's Ice Cream Corporation	413-543-2400	Nevada Gold & Casinos, Inc.	713-621-2245
Hanger Orthopedic Group, Inc.	301-986-0701	PEMCO Aviation Group, Inc.	205-510-4051
Harvest Natural Resources	281-579-6700	Rockwell Medical Technologies, Inc.	248-960-9009
Hoover's, Inc.	512-421-4336	Rocky Mountain Chocolate Factory, Inc.	970-382-7324
iDine Rewards Network, Inc.	305-892-3306	Sedona Corporation	330-220-4051
IGN Entertainment	415-508-2622	Webco Industries, Inc.	918-241-1094

Only Ericsson lets you
grow
your network
any way you want



Our inventions are turning technology
into your business opportunities.
Inventions like GPRS, WAP, A
and Bluetooth. Creating
the business opportunities of tomorrow.
And with 30,000 patents pending
worldwide, doing the same tomorrow.
Another reason why the world's
most powerful telecommunications
companies, like WorldCom,
China Mobile and France Telecom,
choose Ericsson. Again and again.

www.ericsson.com

ERICSSON 

Pfizer: Heading Up?



GENE G. MARCIAL

Even the most ferocious bear is starting to see some light at Pfizer (PFE). The Street has been down on Big Pharma, and one of the most unrelenting is Richard Evans of Sanford C. Bernstein. Of late, he called Merck and Bristol-Myers Squibb "potential value traps" and advised clients to avoid them. They sport artificially low price-earnings ratios, based on inflated projections, he argues. But Evans thinks estimates of Pfizer's earnings aren't inflated, so the p-e ratio suggests that the "bear story" is already in the stock's depressed price, now 35.02.

Although Evans had been a big bear on Pfizer, he sees some near-term gains. "We envision 11.6% annual per-share earnings growth through 2006. Yet the stock implies only 9.5% growth," says Evans. Using that higher rate, he says, the price should be 38. He still has a neutral rating on Pfizer—"but it's hard to resist the stock," now, says Evans. "We would add to positions, especially below 35."

On June 12, Evans raised his earnings forecast for 2003 from \$1.78 a share to \$1.81, and for 2004 from \$1.92 to \$1.96. His 2002 estimate stays at \$1.56. Pfizer trades at 22 times the 2002 estimate, 19 times the 2003 numbers, and 17 times 2004's figure. Pfizer made \$1.31 in 2001. The p-e's are close to those of the industry and of the Standard & Poor's 500-stock index. Part of the deterioration in Pfizer's p-e is due to the industry slump. Some disadvantages he sees in Pfizer: slowing sales of Lipitor and Viagra, and lower margins from consumer products that Pfizer acquired when it bought Warner-Lambert in 2000.

Possible good news: Evans is betting Pfizer will buy back shares, given the stock's drop and its hefty cash hoard, and may spin off Warner-Lambert's consumer businesses, which he reckons are worth \$8 billion—about \$3.50 a share.

THE WATER IS FINE AT STRATEGIC

Right after September 11, shares of Strategic Diagnostics (SDIX) more than doubled—from 3.95 on Sept. 18 to 9.28 on Dec. 7. The reason: The company makes tests to determine water quality and food safety, and last fall, concerns about bioterrorism were at their height. Strategic's tests detect the presence of chemicals, pesticides, and other compounds in water. But the stock swooned thereafter—as the company missed earnings estimates in 2001, when

it earned just 6¢ a share on sales of \$29.3 million, down from 9¢ on sales of \$25.8 million in 2000. With the stock now down to 4.87, some pros have been buying.

A new wrinkle: Strategic is said to be poised to launch new products in the next few months: tests to detect the presence of *E. coli* and mad-cow disease. The mad-cow test is being financed mainly by McDonald's, which intends to require its beef suppliers to use it. This test could be in the market in the third quarter, says one source.

Arthur Koch, chief financial officer and chief operating officer, figures the market for the mad-cow tests could run to \$20 million, and the one for *E. coli* to \$40 million. Another forthcoming product: MicroTox, a test to detect chemicals at water-treatment plants. On June 12, President Bush signed the Bioterrorism Preparedness Act of 2001, which in part provides funds for states to assess the vulnerability of their water systems to chemical contamination. Koch puts the market for MicroTox at \$10 million to \$20 million. Mark Chekanow of Sidoti, a research firm serving institutional investors, rates the stock a hold, and expects earnings of 1¢ a share in 2002 and 22¢ in 2003. One fund manager, who owns shares, says the estimates "are too low."

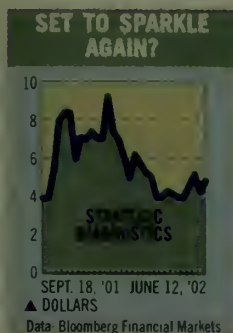
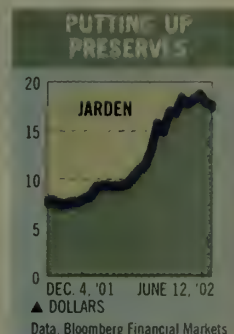
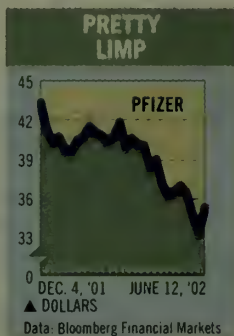
JARDEN'S GROWTH IS IN THE BAG

Investment pro Neal Goldman, president of Goldman Capital Management, picks up growth stocks wherever he can—even in such humdrum businesses as products for home canning and food packaging. His purchase of Jarden (JAH), a Big Board-listed stock (formerly called Alltrista) has rewarded him well: The stock has bucked the market's precipitous drop—swinging up from 5 a share (post-split) on Sept. 21 to 17.90 on June 12. That's only the start, says Goldman. Based on his 2002 earnings estimate of \$1.50 a share, on sales of \$400 million, Goldman sees the stock boiling up to 30 in a year—with help from Jarden's purchase of packaging company Tilia. In 2003, earnings should rise to \$1.85 a share on \$450 million in sales, he says. Jarden made 43¢ a share

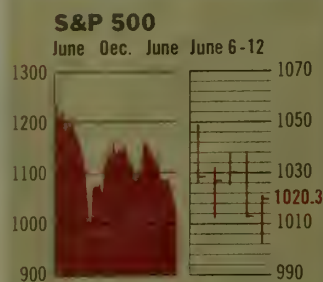
in 2001 on sales of \$305 million. Another appeal of Jarden: Chairman and CEO Martin Franklin is a dealmaker who has bought and sold other companies. Goldman believes Franklin, who says Jarden is a "sleeper," is building up the company to sell later. Goldman owns 5% of Jarden.

BusinessWeek online

Read Gene Marcial's Inside Wall Street Online column Tuesday afternoons at www.businessweek.com/today.htm. And see him Fridays at 1:40 p.m. EST on CNNfn's *The Money Gang*.



Stocks



COMMENTARY

Investors took to the sidelines after Intel announced on June 6 that second-quarter revenue forecasts were too rosy. That news, coupled with uncertainty over corporate profits and unease over the Middle East, continued to hammer the major indexes down toward their September 21 lows. For the week, the Dow, the S&P 500, and Nasdaq fell 1.8%, 2.8%, and 4.8%, respectively.

Data: Bloomberg Financial Markets
Reuters

U.S. MARKETS

	June 12	Week	Year to date	Last 12 months
S&P 500	1020.3	-2.8	-11.1	-18.8
Dow Jones Industrials	9617.7	-1.8	-4.0	-12.2
Nasdaq Composite	1519.1	-4.8	-22.1	-30.0
S&P MidCap 400	498.7	-3.1	-1.9	-4.9
S&P SmallCap 600	231.0	-2.3	-0.5	0.9
Wilshire 5000	9660.3	-2.7	-9.8	-16.9

SECTORS

	June 12	Week	Year to date	Last 12 months
BusinessWeek 50*	644.3	-1.7	-11.7	-26.1
BusinessWeek Info Tech 100**	318.0	-2.8	-24.2	-33.8
S&P/BARRA Growth	514.2	-3.0	-13.5	-17.8
S&P/BARRA Value	503.5	-2.6	-8.8	-20.1
S&P Energy	211.7	-1.1	0.2	-14.5
S&P Financials	338.6	-2.5	-4.7	-10.4
S&P REIT	101.0	0.0	8.1	9.1
S&P Transportation	201.8	2.1	2.5	0.6
S&P Utilities	124.7	-2.3	-14.5	-36.8
GSTI Internet	77.6	-4.0	-26.1	-42.7
PSE Technology	542.5	-5.2	-21.1	-28.3

*Mar. 19, 1999=1000 **Feb. 7, 2000=1000

BEST-PERFORMING GROUPS

	Last month %	Last 12 months %
Systems Software	8.6	56.5
Managed Health-Care	8.5	55.7
Air Freight & Couriers	7.2	53.4
Genl. Merchandise Chains	6.9	46.5
Health-Care Facilities	6.5	34.2

GLOBAL MARKETS

	June 12	Week	Year to date
S&P Euro Plus (U.S. Dollar)	998.9	-2.4	-
London (FT-SE 100)	4851.7	-2.8	-
Paris (CAC 40)	4004.8	-1.8	-1
Frankfurt (DAX)	4510.2	-2.5	-1
Tokyo (NIKKEI 225)	11,327.1	-2.9	-
Hong Kong (Hang Seng)	11,148.0	-2.2	-
Toronto (TSE 300)	7359.6	-2.5	-
Mexico City (IPC)	6801.7	-2.5	-

FUNDAMENTALS

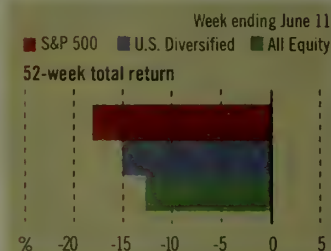
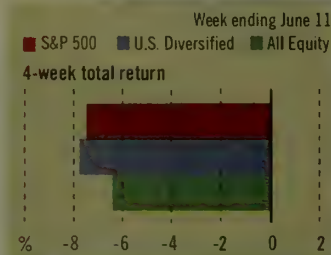
	June 11	Wk. ago
S&P 500 Dividend Yield	1.56%	1.52%
S&P 500 P/E Ratio (Trailing 12 mos.)	42.2	42.5
S&P 500 P/E Ratio (Next 12 mos.)*	17.9	18.3
First Call Earnings Revision*	-0.50%	-0.39%

*First Call Corp.

TECHNICAL INDICATORS

	June 11	Wk. ago
S&P 500 200-day average	1110.1	1113.8
Stocks above 200-day average	63.0%	66.0%
Options: Put/call ratio	0.86	0.80
Insiders: Vickers NYSE Sell/buy ratio	3.88	4.10

Mutual Funds



Data: Standard & Poor's

EQUITY FUND CATEGORIES

4-week total return %	52-week total return %
Leaders	Leaders
Precious Metals 4.4	Precious Metals 64.8
Japan 3.7	Real Estate 15.3
Real Estate 2.0	Pacific/Asia ex-Japan 6.6
Diversified Pacific/Asia 0.8	Diversified Emerging Mkts. 5.7
Laggards	Laggards
Technology -15.2	Communications -43.6
Health -10.0	Technology -42.1
Small-cap Growth -9.8	Utilities -26.6
Communications -9.7	Large-cap Growth -24.1

EQUITY FUNDS

4-week total return %	52-week total return %
Leaders	Leaders
ProFunds UltraShort OTC 37.7	U.S. Glob. Wld. Prec. Minls. 107.7
Rydex Dynamic Vent. 100 37.7	First Eagle SoGen Gold 103.2
U.S. Glob. Wld. Prec. Minls. 18.9	U.S. Global Investors Gold 99.0
Rydex Arktos Investor 17.9	Van Eck Intl. Invs. Gold A 90.8
Laggards	Laggards
ProFunds UltraOTC Inv. -29.9	ProFunds UltraOTC Inv. -72.1
Black Oak Emerging Tech. -28.3	Black Oak Emerging Tech. -70.1
World GenomicsFund.com -26.3	Van Wagoner Post Venture -65.4
Conseco Science & Tech. A -23.7	World GenomicsFund.com -65.3

THE WEEK AHEAD

CONSUMER PRICE INDEX Tuesday, June 18, 8:30 a.m. EDT ► Consumer prices for goods and services in May most likely grew by 0.2%, after a 0.5% increase in April. That's based on the median forecast of economists surveyed by Standard & Poor's MMS, a unit of The McGraw-Hill Companies. Excluding food and energy, May core prices probably rose 0.2% as well, after a 0.3% gain in April.

NEW RESIDENTIAL CONSTRUCTION Tuesday, June 18, 8:30 a.m. EDT ► Housing starts

are expected to have climbed to an annual rate of 1.6 million units in May, after slipping to 1.56 million in April.

CURRENT-ACCOUNT DEFICIT Thursday, June 20, 10 a.m. EDT ► The U.S. current-account deficit probably swelled to \$107.9 billion in the first quarter. The fourth-quarter deficit stood at \$98.5 billion, unchanged from the third quarter.

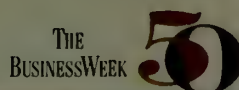
INTERNATIONAL TRADE Thursday, June 20, 8:30 a.m. EDT ► The trade deficit is fore-

cast to have widened to \$32 billion in April, from \$31.6 billion in March.

LEADING INDICATORS Thursday, June 20, 10 a.m. EDT ► The Conference Board's composite index of leading economic indicators probably inched up 0.1% after falling 0.4% in April.

FEDERAL BUDGET Thursday, June 20, 10 a.m. EDT ► The U.S. Treasury most likely posted a \$70 billion deficit during May, compared with \$27.9 billion in May, 2001.

BusinessWeek Fifty



Dec. June

Weekly

Daily: June 6-12

675

660

644.3

630

615

1.7% for the week. Contributing largely to the decline was Tyco International, which plummeted 11.7% for the week. Providers such as Dynegy, down 15.6%, and Calpine, down 11.0%, got hurt, too. The bright spot was WellPoint Health Networks, which soared 10.5% after announcing it expects to beat analysts' yearend earnings. The upbeat forecast spurred rises in Tenet Healthcare, up 3.7%, and UnitedHealth Group, 5.7%.

COMPANY PERFORMANCE

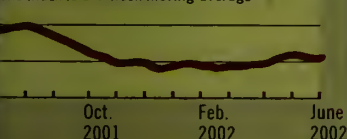
Company	% change		Rank	Company	% change	
	Week	Since 3/1/02			Week	Since 3/1/02
Johnson & Johnson	-4.0	-6.0	26	Tenet Healthcare	3.7	31.8
Mac	-0.6	0.6	27	Household International	0.6	1.9
	-0.1	-14.5	28	WellPoint Health Networks	10.5	39.0
	-7.1	-4.5	29	Washington Mutual	-0.4	15.0
Morris	-2.1	6.7	30	Duke Energy	-3.8	-14.6
For	-5.6	-15.2	31	Kohl's	-0.7	10.1
Maie	-2.0	-1.5	32	Bed Bath & Beyond	-1.4	5.9
	0.1	5.0	33	Cardinal Health	-2.4	-6.2
	-2.0	-3.9	34	Centex	3.1	-8.1
MerckBergen	4.4	16.1	35	American Electric Power	0.4	-6.3
Health Group	5.7	33.9	36	Golden West Financial	-0.5	9.3
	0.6	7.9	37	Stryker	-1.5	-14.5
Apot	-6.1	-23.9	38	Harley-Davidson	-0.6	2.3
Stores	6.1	-6.0	39	PepsiCo	-0.7	2.3
	-15.6	-71.1	40	Merck	-5.4	-15.2
Dynamics	4.4	13.7	41	Apache	-0.8	1.1
Petroleum	-0.8	-5.8	42	Amerada Hess	-2.7	12.5
Laboratories	-2.1	-11.7	43	KB Home	0.2	13.3
(R)	5.5	-7.3	44	First Data	4.2	0.7
	-11.0	5.6	45	Tyco International	-41.3	-65.1
Oil Petroleum	-2.4	8.3	46	International Game Technology	-3.8	-13.1
	-4.2	-9.8	47	Capital One Financial	-5.7	15.7
Games	0.9	2.4	48	Electronic Data Systems	-5.6	-16.5
Oil	-2.6	-5.8	49	Nabors Industries	-6.2	3.8
p	-2.7	-9.0	50	Xcel Energy	-4.9	-15.0

Production Index

Change from last week: 0.1%
Change from last year: -5.8%

REAL OUTPUT June 0=161.2 1992=100

The index is a 4-week moving average



on index showed a small gain during the before calculation of the four-week moving index moved up to 162 from 160.9. On a adjusted basis, electric power showed the followed by large gains in crude-oil refining and truck production posted moderate in the holiday-shortened week. Lumber ve furthest, with smaller declines in both l-freight traffic.

each of the index components is at www.business-week.com.
production index Copyright 2002 by The McGraw-Hill

Online Resources

BW 50 Track the index and the companies in it all day long. Plus: our exclusive Info Tech 100 index.

BUSINESSWEEK INVESTING Real-time market coverage and investment tools in partnership with Standard & Poor's.

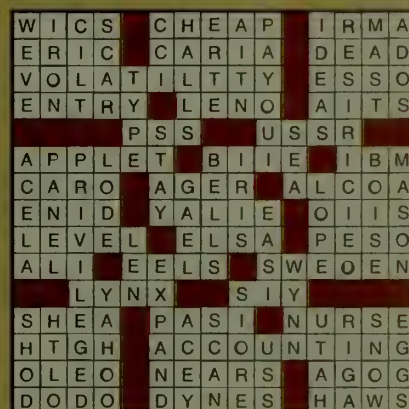
MUTUAL FUNDS Search for funds, view BW ratings, and read Q&A's with fund managers.

COLUMNS Hot stocks, takeover plays, and the latest strategies for managing your money.

BusinessWeek online

For more investment data and the components of the production index, visit www.businessweek.com.

Mixing Business with Pleasure by Lincoln



Answers from this week's puzzle in BusinessWeek.



LINCOLN

800 688-8898

Index to Companies

This index gives the starting page for a story or feature with a significant reference to a company. Most subsidiaries are indexed under their own names. Companies listed only in tables are not included.

A

Abbott Laboratories (ABT) 51, 126
 Accenture (ACN) 98
 Ace Hardware 94
 Acordia 146
 Adelphia Communications (ADLAC) 30, 36
 Adobe Systems (ADBE) 84
 Advanced Micro Devices (AMD) 102
 Affiliated Computer Services (ACS) 98, 109
 Alaska Airlines (ALK) 48
 Albertson's (ABS) 20
 Alloy (ALOY) 104
 Allstate (ALL) 60
 AltaVista (CMGI) 106
 Amazon.com (AMZN) 104
 American Airlines (AMR) 48
 American Financial Group (AFG) 30
 American International Group (AIG) 138
 Ames Department Stores (AMESQ) 98
 Anteon International (ANT) 109
 AOL Time Warner (AOL) 104, 106, 138
 Apple Computer (AAPL) 83, 84
 Applied Materials (AMAT) 102
 Arthur Andersen 30, 42
 AT&T (T) 30, 64, 134
 ATI Technologies (ATYT) 102
 Au Bon Pain (PNRA) 152

B

Banamex (C) 56
 Bank of America (BAC) 56, 109
 Bank One (ONE) 98
 Barclays Capital (BCS) 134
 Barebabies.com 106
 Baxter International (BAX) 30
 Bear Stearns (BSC) 44
 BellSouth (BLS) 47
 Berkshire Hathaway (BRK) 138
 Bertelsmann 51
 BMG Entertainment 51
 Bridgewater Associates 36
 Bristol-Myers Squibb (BMY) 159
 BT Group (BTY) 98
 Burger King (DEO) 60
 Business Objects (BOBJ) 94

C

CAL Insurance & Associates 146

Casio Computer (CSLOY) 84
 Certegy (CEY) 98
 Cerulli Associates 142
 Charles Schwab (SCH) 16
 Cisco Systems (CSCO) 36, 84, 138, 142
 CIT Group 30, 134
 Citigroup (C) 12, 56, 142
 CNET Networks (CNET) 106
 Cognos (COGN) 94
 Compaq Computer (HPQ) 84, 92
 Compass Group 152
 Computer Sciences (CSC) 98
 Coty 94

D

Dai-ichi Kangyo 134
 Davis Selected Advisors 36
 Dell Computer (DELL) 83, 84, 92, 142
 Digital Insight (DGIN) 109
 DRI-WEFA 65

E

eBay (EBAY) 84
 Edmunds.com 150
 Electronic Data Systems (EDS) 20, 98, 109
 Elitigroup Computer Systems 84
 EMC (EMC) 30, 84, 124
 Enron (ENRNQ) 30, 36, 42, 132, 138, 142
 ePeopleServe 98
 Expedia (EXPE) 104

F

FAC Equities 94
 Fair Isaac (FIC) 94, 96
 Fannie Mae (FNM) 30
 Fidelity Investments 12, 36
 FindWhat.com (FWHT) 106
 First Albany (FACT) 102
 First Data (FDC) 98
 Flextronics International (FLEX) 84
 Ford (F) 65
 Franklin Resources 36
 Friedman Billings Ramsey 47
 Fujitsu 124

G

Gartner Dataquest (IT) 84
 Gateway (GTW) 92, 132
 Genentech (DNA) 51
 GE Capital Services (GC) 134
 General Electric (GE) 20, 124, 142
 General Mills (GIS) 30, 36
 General Motors (GM) 65, 98
 Giga Information 47
 GlaxoSmithKline (GSK) 51, 81

Global Crossing (GBLXQ) 30
 Golden State Bancorp (GSB) 56
 Goldman Capital Management 159
 Goldman Sachs (GS) 30, 36, 44, 84, 164
 Google 106
 GoTo.com 106

H

Hewlett-Packard (HPQ) 92, 124
 Hitachi (HIT) 124
 HNC Software (HNCS) 96
 Hon Hai Precision Industry 83
 Honda (HMC) 65
 Honeywell International (HON) 20
 Hotels.com (ROOM) 104
 Hyperion Solutions (HYSL) 94

I

IBM (IBM) 12, 16, 20, 30, 44, 84, 92, 98, 102, 109, 124
 ICN Pharmaceuticals (ICN) 36
 IDT (IDT) 47
 ImClone Systems (IMCL) 30
 Informatica (INFA) 94
 Inktomi (INKT) 84
 Instinet (INET) 51
 Institutional Shareholder Services 36
 Insurance.com 146
 Insure.com 146
 Intel (INTC) 84, 92, 102, 138
 International Data 84, 92, 94, 108, 124
 International Strategy & Investment 44
 Interval Acquisition 108
 Intuit (INTU) 104
 Inventec 92
 Iridian Asset Management 36
 Ipsos-Reid 38
 Island ECN (INET) 51

J

Jaguar (F) 65
 Janus Overseas Fund (JAOSX) 138
 Janus Twenty Fund (JAVLX) 138
 Janus Worldwide Fund (JAWWX) 138
 Jarden (JAH) 159
 Jefferies (JEF) 47
 JetBlue Airways (JBLU) 48
 Johnson & Johnson (JNJ) 36

Joseph W. McCartin Insurance 146
 J.P. Morgan Chase (JPM) 12, 36
 Jupiter Media Metrix (JMXI) 14

K

Kbb.com 150
 Keppel 52
 Krispy Kreme Doughnuts (KKD) 152
 KT Freetel 83

L

Land Rover 65
 Lands' End (LE) 14
 Leap Wireless International (LWIN) 84
 LeaseTrader.com 150
 Legg Mason (LM) 36
 Lehman Brothers (LEH) 98, 109, 134
 Level 3 Communications (LVL) 108
 Lipper 138
 Lockwood Financial Group 142
 Loews (LTD) 60
 Lowe's (LOW) 36
 Lucent Technologies (LU) 20, 132

M

Marsico Capital Management (BAC) 36
 Martha Stewart Omnimedia (MSO) 14
 Maxtor (MXO) 124
 Mazda 65
 MBNA (KRB) 12, 36
 McAfee.com (MCAF) 104
 McClatchy (MNI) 92
 McDonald's (MCD) 36, 159
 McGraw-Hill (MHP) 160
 MCI Group (MCI) 47
 McKinsey 20
 Medtronic (MDT) 30
 Merck (MRK) 126, 159
 Merck-Medco Managed Care (MRK) 126
 Merrill Lynch (MER) 36, 48, 65, 126
 MicroCHIPS 81
 Micropolis 52
 Microsoft (MSFT) 30, 84, 92, 109, 124
 Moody's Investors Service (MCO) 44, 56
 Morgan Stanley Dean Witter (MWD) 36, 47
 Motorola (MOT) 102
 MSN (MSFT) 106
 myFICO.com (FIC) 96

N

Napster 51
 Navellier & Associates 36
 Network Associates (NET) 36
 Newcourt Credit Group 134

Nike (NKE) 12
 Nokia (NOK) 84
 Nortel Networks (NT) 98
 Northwest Airlines (NWAC) 48

O

Opinion Dynamics 72
 Oracle (ORCL) 30, 94
 Overture Services (OVER) 104, 106, 108

P

Pacific Internet 52
 Panera Bread (PNRA) 152
 Pfizer (PFE) 126, 159
 Pharmacia (PHA) 78
 Polstra & Dardaman 142
 Premier Pacific Vineyards 132
 Procter & Gamble (PG) 12
 Proxim (PROX) 23

Q

Quanta Computer 83
 Quantum (DSS) 124
 Quotesmith.com 146
 Qwest Communications International (Q) 132

R

Raymond James (RJF) 30, 48
 Ritch Ratings 134

S

Sabre 104
 Safeway (SWY) 51
 Salomon Smith Barney (C) 36, 142
 Samsung Electronics 83
 SAP (SAP) 94
 Sara Lee (SLE) 36
 SBC Communications (SBC) 36, 47
 Schering-Plough (SGP) 126
 Schneider Insurance Agency 146
 Seagate Technology 124
 SembCorp 52
 Siebel Systems (SEBL) 44, 94, 109
 Silver Lake Partners 124
 Singapore Technologies 52
 Siolectron (SLR) 84
 Southwest Airlines (LUV) 20, 30, 48, 164
 SpectorSoft 14
 Spencer Stuart 84
 Sprint (FON) 98
 Standard & Poor's (MHP) 30, 83, 84, 134, 160
 Starbucks (SBUX) 152
 State Farm 146
 Stilwell Financial (SV) 138
 Strategic Diagnostics (SDIX) 159
 Sun Microsystems (SUNW) 92, 109
 Swapalease.com 150
 Symantec (SYMC) 36

T

Taiwan Semiconductor (TSM) 102
 Takeda Chemical Industries 126
 TAP Pharmaceutical Products 126
 Target (TGT) 104
 TechData (TECD) 109
 Telefonos de México (TFONY) 108
 Temasek Holdings 52
 Texas Instruments (TX) 102
 Texas Pacific 124
 Thomson (TOC) 51
 Thomson Financial/IR Call 51
 Ticketmaster (TCMS) 1
 Toyota (TM) 65
 Toys 'R' Us (TOY) 104
 TPI 98
 Travelers Property Cas (TAP) 124
 Travelocity.com (TSG)
 Tyco International (TYC) 12, 30, 36, 134, 138

U

UAL (UAL) 48,
 United Microelectronics (UMP) 102
 United Online (UNTD) 1
 United Parcel Service (UPS) 142
 United Technologies (UT) 36
 USA Interactive (USAI) 108
 US Airways (U) 48

V

Value Line (VALU) 108
 Vanguard Group 36, 16
 Veritas (VRTS) 124
 Virginia International Terminals 14
 Volvo (F) 65

W

Wal-Mart Stores (WMT) 36, 126
 Walt Disney (DIS) 12, 36
 Washington Mutual (WM) 98
 Wavecom (WVCM) 84
 Wells Fargo (WFC) 56
 Weyerhaeuser (WY) 16
 WorldCom (WCOM) 30, 48, 108

X

Xerox (XRX) 20, 30

Y

Yahoo! (YHOO) 84, 104, 106, 108
 Yukos Oil 58

Z

Zomba 51

BusinessWeek (ISSN 0007-7135) published weekly, except for one week in January and August and an additional issue the first week of April, by The McGraw-Hill Companies, Inc. Executive, Editorial, Circulation, and Advertising Offices: 1221 Avenue of the Americas, New York, N.Y. 10020. U.S. subscription rate \$54.95/year; Canada: CDN \$69/year. Periodicals postage paid at New York, N.Y., and at additional mailing offices. Postage paid at Montreal, P.Q. Canada Post International Publications Mail Product Sales Agreement No. 246484. Postmaster: Send address changes to BusinessWeek, P.O. Box 53235, Boulder, CO. 80322-3035.

MARKETPLACE

For Ad Rates and Information
Phone: (312) 464-0500
Fax: (312) 464-0512

Promotions/Premiums

ALAN IDEA
Ideas to Boost
and Motivate Prospects

PRIVATE YOUR CUSTOMERS
Spend more money with highly motivated, nationally recognized name incentives. Variety of travel programs, as well as merchandise and Rebate offers.
www.spirit-incentives.com or
800-860-5880 Ext. 130.

Discount Travel

Vegas/New York
Hotel Rates
Up to 65% Off!
Book Online @
HotelDiscount.com
800-310-4821
Hotels
Reservations
Network

Golf Shoes

**"THE BEST GOLF SHOE
I'VE EVER WORN"**
— Gene Sullivan

www.gripgolf.com
888-887-4711

Financial Books/CD Roms

**Determined to improve
your financial position?**

800-234-3445 for a **FREE** booklet!
stowers-innovations.com/freeideas.html

Telecommunication Services

LONG DISTANCE
4.5¢ per min
Incoming/Outgoing 800 Numbers
Low International Rates • 11 Carriers
www.1-800-cucumber.com

Business/Career Opportunities

Become a Arrange
equipment leases • Factoring • Business
loans of ALL types • No experience needed.

**BUSINESS FINANCE
CONSULTANT**
SEE FOR YOURSELF!
Visit us at **www.viewTLC.com** where making
money is as easy as receiving your E-mail!
RECEIVE A COLOR INFO KIT
AND **FREE VIDEO SEMINAR**
The Loan Consultants, Inc.
since 1983

CALL
800-336-3933

**SIX FIGURE POTENTIAL
FROM HOME (part/full time)**
26-year-old international,
multi-billion dollar technology
company with 5A1 D&B rating.
For details on our internet based
marketing approach, visit:
www.myautomaticbiz.com/rd4

ECONOMIST: Plan & conduct
market research & analysis for most
efficient & cost effective purchase &
use of construction materials,
analyze blueprints & plans of
commercial & residential construc-
tions & prepare profit/loss analysis
for each project, create economic
plan for each construction project
with data regarding type & quantity
of construction materials, organize
data for each construction project
to include type & amount of
manpower necessary for most
cost effective & productive results &
monitor the economic aspect of
each project to make changes &
substitutions in the plans when
necessary. Required: BS in Mechanical
Engineering, 2-year experience in
job offered; 2-year experience
must include market research &
economic analysis in the residential
& commercial construction field;
\$59,634.00/yr, 40hrs/wk, 9-5. Job in
Lincolnshire, IL. Applicants must
show proof of legal authority to
work in the U.S. Send 2 copies of
both resume & cover letter to: Illinois
Dept. of Employment Security,
401 S. State St., 7 North, Chicago,
IL 60605, Attn: Brenda Kelly, ref.#
V-IL 27146-K. No calls. An Employer
Paid Ad.

Education/Instruction

**Get Your MBA
Through Distance Learning**

- Prestigious British University Accredited Under Royal Charter
- One of the World's Largest Distance Learning MBA Programs
- All Necessary Study Materials Provided
- Access To On-Line Facilities
- Support From Local Resource Centers and Student Networking
- Flexible Financing & Payment Plans Available

**University of
Leicester**

Call Today: 800-874-5844
or visit **www.rdi-usa.com**

ONLINE GRADUATE PROGRAMS

- Juris Doctor (California Bar Qualified)
- M.B.A. — Entrepreneurship
- M.B.A. — Health Care Administration
- Master of Science in Taxation

WILLIAM HOWARD TAFT UNIVERSITY
Quality Distance Education Since 1976

www.taftu.edu 800/882-4555

**ABSOLUTELY FREE
EVALUATION**
**Bachelor's — Master's —
Ph.D. Degrees**
Based on life and work experience.
Confidential — Fast — Student
Loans. **www.rrc.org**
800-951-1203

DISTANCE LEARNING
BA, MBA, MA, Doctoral Degrees
Business, Psychology and Law
Southern California University
for Professional Studies
1840 E. 17th Street, Santa Ana, CA 92705
Since 1978
Education Loans Available
(800) 477-2254 **WWW.SCUPS.EDU**

Buy-On-Line

Giant Web Site
10,000 Wholesale Products
www.school-tech.com

Sports: Thousands of sports, recreation and game products.

Science: 2000 Great Products. Experiments, microscopes & more.

"How To" Videos: 2000 Films for every educational & sports activity.

Safety: 1000 Unique Products.
— Order Online at —
www.school-tech.com
745 State Circle P.O. Box 1941
Ann Arbor, MI 48106

Business Services

Need a Logo?

mylogo Get a Professional
Custom Designed
LOGO TODAY!
Vista, MC/Amex
Toll-Free: 1-888-869-5646
www.1800mylogo.com

**FORM YOUR
CORPORATION
OR LLC TODAY**

INCORPORATING BUSINESSES SINCE 1899

- Protect Personal Assets
- Reduce Taxes — All 50 States
- Convenient, Reliable, Affordable

1-888-705-9723
www.incorporate.com

The Company Corporation®

Ink & Toner

ink & toner

- **\$3.50 shipping!**
- **\$2 off:** enter promo code "BZW11"
- **All brands:** Alps, Oki, Lexmark, HP, Brother, more!

Hewlett-Packard		Canon		Epson	
51645A	New HP 24 61	BCI-3bk	Ong Canon 13.79	S020189	Ong Epson 23.99
	Refilled cart 17 91		Inkfarm bnd 6.85		Inkfarm bnd 9.99
C6578A	New HP 52 91	BC-3c/y/m	Ong Canon 11.98	S020187	Ong Epson 21.64
	Refilled cart 27.91		Inkfarm bnd 6.85		Inkfarm bnd 10.75
C6578D	New HP 31.91	BCI-21c	Ong Canon 16.99	T009201	Ong Epson 26.36
C1823D	New HP 29.99		Inkfarm bnd 10.75		Inkfarm bnd 16.99
	Refilled cart 22.99				

1-800-INKFARM
inkfarm.com
the ink & toner supersite.™

REBUILDING TRUST—BEFORE IT'S TOO LATE

BusinessWeek has long championed the importance of growth and innovation. Sustained investment in technology, combined with the strength of the U.S. financial system, has produced an economy that is still outperforming the rest of the industrialized world. Even now, the more farsighted companies are investing in the next generation of technology (page 84). Ultimately, that is where the future of the U.S. economy lies.

But we also believe that it is impossible to run a fast-growth, high-investment economy without fairness and a level playing field for investors—and right now, it seems there is little of either. Each day brings to light yet another case of corporate falsehoods, misrepresentations, and manipulation of markets. Even blue-chip companies use aggressive accounting practices, while top managers grossly enrich themselves at the expense of shareholders.

Many business leaders act as if these problems are all going to blow over (page 30). They are keeping mum or supporting efforts by lobbying groups to derail or water down reforms. Meanwhile, executives such as CEO James F. Parker of Southwest Airlines Co. worry that the “misdeeds of a few” are undermining confidence in honest businesses.

There is too much at stake for CEOs to maintain this state of denial. Despite their optimistic pronouncements, the truth is that investor confidence and trust in Corporate America is fragile. As Henry M. Paulson Jr., CEO of Goldman, Sachs & Co., puts it: “In my lifetime, American business has never been under such scrutiny. To be blunt, much of it is deserved.” The effect of the bad news is cumulative. Each revelation of corporate wrongdoing creates something like a small hole in a dike. At first, the leak is small, but the pressure increases until the wall collapses.

HISTORY LESSONS

Fortunately, there is little evidence yet of a wholesale collapse of investor confidence. According to the *BusinessWeek/Ipsos-Reid* poll, taken June 7-9, only 18% of investors say they will reduce their investment in the market over the next six months. That number is slightly lower than in February, when *BusinessWeek* last asked that question.

History suggests, however, that the loss of confidence, when it comes, could happen very rapidly. The damage would be enormous. It would become far more difficult for companies to raise money, either at home or abroad. Moreover, the crisis would have the potential to imperil what business needs: a market-based economic system without excessive regulation, and strong financial markets with broad-based investor participation. Indeed, once investors lose confidence, other parts of the business agenda, such as free trade, are likely to come under attack as well.

What we need are institutional reforms that will restore trust in corporations and the markets before it erodes further. The effort must be broad-based, with the committed partici-

pation of Washington, Wall Street, and Corporate America.

First on the list is passage in Congress of accounting reform legislation. Right now, it looks like Senator Paul Sarbanes (D-Md.) has enough votes to move his accounting reform bill out of committee, but it still faces substantial opposition in the full Senate and the House of Representatives. Opponents of reform, such as Senator Phil Gramm (R-Tex.), who considers himself a free-market conservative, should recognize the threat caused by unreliable financial information from companies.

OVERSIGHT WITH CLOUT

Equally essential is aggressive enforcement and regulation by the Securities & Exchange Commission. The SEC has stepped up its investigations of financial wrongdoing and is pushing a strong agenda to tighten the disclosure rules for U.S. companies. On June 12, it proposed new guidelines that will triple the number of corporate developments—including such potential land mines as transactions with related parties, unusual financing deals, and waivers of ethics codes—that companies must report publicly. But the key question remains: whether the SEC will propose an accounting oversight board with true independence and clout.

The reform effort can't flow from Washington alone. Pressure also must come from Wall Street, in particular the institutional investors and pension plans that absorbed much of the losses from the string of corporate stock meltdowns (page 36). The latest proposal from the New York Stock Exchange to tighten governance standards and require more independent directors is a good first step. At the same time, pension funds and other big institutional investors are pushing shareholder resolutions. Another promising sign: the budding alliance among a group of major institutional investors representing most 10% of the stock market—including Warren E. Buffett and John C. Bogle, founder of Vanguard Group Inc.—that want to force companies to worry about corporate governance and executive compensation, among other things.

Perhaps most important, top managers themselves have to step up and provide leadership during this crisis. So far, CEOs have held back, partly because they believe that the problems have been overblown by the media and partly because they may know that they played some games themselves with their earnings during the fat years. Still, it's longer that leading executives stand on the sidelines, than greater their apparent complicity in a system that seems rigged against investors.

None of this will be easy. Congress and the Bush Administration are being lobbied to death by business groups demanding reduced reforms or none at all. Institutional investors are still tempted to sell their shares rather than fight for better governance. But everyone should remember that it's far easier to deal with a crisis of confidence before it gets out of control. The fire next time will be much worse.

TECHNICALLY SPEAKING, THE BEST NEWS SOURCE IN THE WORLD.



The No. 1 best source for technology news, according to Barron's.
For business leaders and investors who recognize the value of up-to-the-second coverage of technology, there is no more informative place to turn. CNET News.com. It's where the people you read about in technology read about technology.

c/net **NEWS.COM**
TECH NEWS FIRST

